



# “Welspun Enterprises Limited Q4 FY2018 Earnings Conference Call”

May 11, 2018



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**Moderator:** Ladies and gentlemen good day and welcome to the Welspun Enterprises Limited Q4 FY2018 earnings conference call hosted by Dolat Capital. 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 would now like to hand the conference over to Mr. Shravan Shah from Dolat Capital. Thank you and over to you Mr. Shah!

**Shravan Shah:** Thank you Janis. Good afternoon everyone. I and my colleague Maulik would like to welcome you all for 4Q FY2018 results and business outlook conference call of Welspun Enterprises Limited. We thank the management for giving us the opportunity to host the call. From the management we have Mr. Sandeep Garg, Managing Director, Mr. Akhil Jindal, Group CFO & Head - Strategy and Mr. Shriniwas Kargutkar, CFO. Without wasting much time, I would like to hand over the floor to management for their opening remarks and then we can have a Q&A. Over to you Sir!

**Sandeep Garg:** Good morning and thank you. I am Sandeep Garg along with me is Mr. Akhil Jindal and Mr, Shriniwas Kargutkar. I welcome the investor community on the call. I would like to brief you about the current status of the infrastructure. The current portfolio for the HAM model infrastructure is that we have a portfolio of about Rs. 7,000 Crores, which includes a project of Rs. 2,000 Crores where we have been declared L1 recently. The letter of award (LoA) is still awaited. Assuming this would be awarded, which we expect to be within the month of May, the current order book for the EPC business would stand at about Rs. 5,500 Crores is escalated for the escalations that have taken place and the change of scopes it would be in the range of Rs. 6,000 Crores, which gives us the visibility on the EPC business to the tune of Rs. 6,000 Crores going forward.

I am very pleased to inform you that the Delhi-Meerut Expressway package-1, which is our first project that got awarded with an appointed date in the end of November 2016, is substantially completed and we have applied for provisional completion certificate already. It is ahead of schedule by about 14 months. The schedule completion was 30 months as against, which we have been able to complete it in 16 months, which will allow us to not only pre-pone the annuities, but also entitle us to the bonus from the client, which is approximately 0.3% of the contract value for per month basis that is an additional advantage that should come to the company. In addition to that there are two more projects, which got their appointed dates in Q4 of FY2018, one is Gagalheri-Saharanpur-Yamunanagar normally we call it GSY project.

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The appointed date was announced on January 26, 2018. Currently it is under execution. As of the current status we are quite hopeful that we will be able to complete the project ahead of schedule or on schedule. The other project, which got the appointed date, was Chutmalpur-Ganeshpur and Roorkee to Chutmalpur and Gagaheri CGRG that is the project that is we call it. The project got its appointed date on February 28, 2018 and the execution is in full swing. We also have in our portfolio two other projects. One is Aunta-Simaria, which is primarily a bridge project for about Rs, 1,161 Crores. We have already done the financial closure for the project; however, the appointed date has not taken place. We expect the appointed date to take place within Q1 of FY2019. For the project we have already finalized our subcontractors and they are also mobilized at the site and the developmental works are on way. So, in terms of our business it is practically de-risk to the extent of our, we are within our budgeted numbers of the award of the contracts. So we have de-risked the project substantially from our financial perspective.

The other project Chikali-Tarsod we had acquired 49% from the Vishvaraj group in January 2018. I am happy to announce you that we could do a financial closure for the project in a very short time and we are expecting the appointed date for the same to be announced in Q1 of FY2019. The subcontractor for the same has already been finalized and the clearing and rubbing at the site is going on as we see.

So these are the projects, which should start giving revenues, two of the projects have started giving revenues from the Q4 of FY2018 and going forward for the year we expect all these projects to go on stream full swing and start contributing to the revenues. The other important project that I would want to touch base from the infrastructure perspective is that Dewas Water, which got restructured and we signed the construction agreement on January 9, 2018 and the appointed date of the same has been received on May 7, 2018 and the execution has already begin.

The project that I have been talking about in the hand that is one we have been declared as L1 is Sattanathapuram to Nagapattinam in Tamil Nadu. It is a 55.75 km rigid pavement road. The NHAI estimate for the same was Rs. 1,470 Crores as against which our bid price has been Rs. 1837.32 Crores. The project we are quite hopeful that which should get awarded within this month or later in the next month. Briefing you about the oil & gas, which is the other piece of business in the company where we are in a joint venture with Adani.

To reiterate there are five relevant blocks two in Kutch, one in Mumbai, one in Gujarat Palej and one discovered small field, which we won about 12 months back. These are the relevant blocks for the company. The two Kutch blocks are under appraisal and as we speak the rigs are en-route

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to the location for starting the appraisal program. For the Mumbai block although we have agreement of in-principle approval from ONGC to take over the PI in light of it being very adjoining to our discovered small field B9 the management is of the view that we may be better served by doing the phase 2 of the Mumbai block ourselves. So we are currently contemplating doing it together with B9 the phase 2 as well.

The Palej block it is under hold from the government side because of the problem with the Naftogaz India. We expect the same to get resolved in the next quarter or so either way, so this is on the oil & gas side.

I would also want to brief you about the future outlook for the infrastructure business. At this current moment, we have in addition to the bid that we have opened the L1, there are two bids, which are of about Rs. 2,000 Crores, which we have put in and are awaiting opening at the NHAI level.

There are about 45 hybrid annuity bids, which are to be bid out going forward for about Rs. 45,000 Crores. We expect to participate in at least two thirds of these bids going forward and we are very hopeful that we should win at least additional Rs. 5,000 Crores of orders from the future bidding that will take place in this year. Also I would want to touch base that with the current order book of about Rs. 6,000 Crores on the EPC side assuming that the Tamil Nadu project will be awarded to us soon. We will have a clear visibility of turnover going forward for the next two years and current turnover of about Rs. 1,000 Crores from the business. We have a clear visibility that we could actually double up our revenues for the next year and year thereafter. So, over this I would want to hand over dais to Mr. Akhil Jindal to take you through the financial highlights of the company.

**Akhil Jindal:**

Good afternoon everyone. I am sure most of the numbers are already uploaded and you would have seen the numbers, but just a quick summary of what we did in the entire last one year. The total income that we booked in the full year was close to Rs. 1,100 Crores, Rs. 1,093 to be precise. We reported an EBITDA of Rs. 166 Crores, which was 145% more than the last year. This EBITDA of course includes the other income and treasury incomes and others. So this works out to almost 15.2%. The PBT is Rs. 139 Crores again 225% more than the last year. The PAT was Rs. 110 Crores, another one 154% higher than the previous year. The PAT margin of 10% and our cash PAT is roughly around Rs. 106 Crores, so this is what we have delivered in the last one full year.

Just a quick snapshot on the balance sheet, our net worth as on March 31, 2018 closing is Rs. 1,457 Crores with a small debt of Rs. 66.4 Crores and a cash of Rs. 713 Crores we are sitting on

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a net debt, which are negative or almost you can say the cash surplus of Rs. 647 Crores and with other small liability of Rs. 30 Crores as a long term and a fixed asset of Rs. 8.7 our net current asset is Rs. 105 Crores as on March 31, 2018. We have made an investment of Rs. 726 Crores as on March 31, 2018, which of course includes the equity in most of these HAM projects as Sandeep has said almost Rs. 350 odd Crores have gone as an equity, Rs. 369 has gone as an equity in these projects plus of course in oil & gas another Rs. 185 Crores, which are two large big ticket items and the miscellaneous are small investments in other businesses. So this is our snapshot on the balance sheet. Clearly we have significant amount of cash balance, but almost like a debt free company at a parental level and that also we are likely to retire in the first half of this financial year. So you can say that as a company we would be having gross debt of almost zero and a cash and cash equivalent of close to Rs. 600 odd Crores at any point of time. So, this is what the current balance sheet is. Of course the segmental numbers are all available with that we have uploaded on the stock exchanges sites and other thing. From that angle I think all these informations available. We can address any specific queries that you may have on these numbers in our Q&A. So, Sandeep I think with this we can open the floor for the Q&A. We are happy to answer any questions.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Nirav Shah from Geecee Investments. Please go ahead.
- Nirav Shah:** Good afternoon Sir and congrats on strong execution. Sir, first question is if we can have the project wise execution for Q4, how much GSY and CGRG contributed to the topline in fourth quarter?
- Sandeep Garg:** The contribution of GSY and CGRG for the Q4 is in the range of about Rs. 300 Crores put together.
- Nirav Shah:** 300 Crores and 70 Crores is on Delhi-Meerut?
- Sandeep Garg:** Yes, Rs. 70 Crores on Delhi-Meerut.
- Nirav Shah:** And that is almost complete?
- Sandeep Garg:** Yes, that is almost complete.
- Nirav Shah:** What would be the effective date for which we will get provisional COD?

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- Akhil Jindal:** We expect it to be issued somewhere in the end of March to end of April any time with effect from that date. That is how the PCOD is normally get issued, so we had completed substantial work by that time; however, the process take some time for the issuance of PCOD, so we will exactly know next week when we get the PCOD issued, but we expect it to be somewhere in that post days.
- Nirav Shah:** Got it Sir and in terms of our equity investments for FY2019, how much are we planning to invest in HAM projects and in oil & gas separately?
- Akhil Jindal:** Oil & gas, over the next two years we expect to invest somewhere around Rs. 150 to 175 Crores. Without considering the Tamil Nadu project that we have recently won, the total equity invested till March 31, 2018 was Rs. 360 against our total commitment of Rs. 480 Crores, so almost Rs. 120 odd Crores need to be invested further in this financial year on the five projects that we have. Tamil Nadu of course is a new project so part of the equity commitment will happen in this year and a part over the next financial year.
- Nirav Shah:** Got it Sir and just the last question, can you just briefly elaborate on our strategy for our four lane inland waterways and by when do we some traction in terms of spreading and everything?
- Sandeep Garg:** The team is right now as we speak the teams of the water is under being put in position. We have started estimating the total potential. There is definitely synergy within the group for us to get into the water segment, so we expect that we should have the team in place in the Q1 and we should be in the market for bidding by the Q2 of FY2019. Our intention would be to take some baby steps and book orders within FY2019 of about Rs. 1000 Crores.
- Nirav Shah:** So is this part of on the media you mentioned that you want to end the year with 7000 Crores, so this would include 1000 Crores?
- Sandeep Garg:** No, that is only for the hybrid annuity projects.
- Nirav Shah:** Great Sir and thank you and all the best.
- Moderator:** Thank you. We take the next question from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.
- Abhilasha Satale:** Sir, congratulations for good set of numbers. Actually, I want to understand more on accounting terminology because in the balance sheet I am seeing receivables given you three varieties like service concession receivables, we have given below investments then in fixed assets also there

is service concession receivables and actually receivables in the current asset, so how is it accounted for and how will be treatment for calculation of operating cash flows?

**Kevin Daftary:** This three category of receivables, actually we consider it as two category of receivables, one is a service concession receivable, which is emanating from the financial asset, so earlier we used to capitalize this as a capex cost now we have to under Ind-AS classify this as a service concession receivable. Within service concession receivable whatever is receivable in short-term let us say 12 months we classify that as a current portion of service concession receivable, balance is something, which we will receive beyond 12 months and credit receivable, which you are referring to is actually pertaining to actual receivables, which we all understand in normal terminology debtors.

**Abhilasha Satale:** So, this long-term service concession receivable is it capital work in progress?

**Kevin Daftary:** No, actually it is something like we used to capitalize it earlier as a capital work in progress or intangible asset like once currently it is intangible under development in traditional language and under Ind-AS it is long-term service concession receivable.

**Abhilasha Satale:** So while calculating operating cash flow we have to consider all these receivables under working capital?

**Kevin Daftary:** Only short-term service receivable is something, which you should consider and trade receivable.

**Abhilasha Satale:** These service concession receivables will be on the balance sheet and that project is undergoing, a particular project, once that gets completed and actual cash flow starts coming this will get reduced.

**Kevin Daftary:** Long-term service concession receivables will be there in our balance sheet for the next 15 years, so as and when we keep on receiving the cash flow from the government this will get reduced over the period. So, in traditional language it is nothing, but intangible asset what we all understand.

**Abhilasha Satale:** Fine. Thank you.

**Moderator:** Thank you. We take the next question from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

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- Gautam Bahal:** Good afternoon. Thank you for taking my questions. Mr. Garg, when you said revenues to double in the next two years, which come to 4000 Crores to 4500 Crores, would that be purely from infra or would that also include of the other income and things are that as we currently have?
- Sandeep Garg:** I am talking purely from infra because that the infra order book that we are looking at, so if we look at infra revenues they are close to Rs. 1,000 Crores there and we have Rs. 6,000 Crores EPC contract visibility right now, so we expect at least the next year for us to be having a revenue out of this of about Rs. 2,000 Crores and going forward another Rs. 4,000 Crores so that is the simple maths there.
- Gautam Bahal:** Just want to clarify that, then second on the infra side the EBIT margin this quarter was 10.9%, which I thought was slightly lower than what I would have expected, what is the sort of outlook on that in the next couple of years?
- Sandeep Garg:** The EBIT margin is 10.9% because lot of projects are under mobilization and certain cost strategy for it, so on a stable basis we expect the margins to be higher. The stable EBITDA margins that we expect from the EPC business to be in the ranges of 11% to 12% on a stable business basis.
- Gautam Bahal:** Sir, the new projects that we are L1 they were also sort of, what I am trying to understand is has a comparative intensity sort of increased that margins are coming lower?
- Sandeep Garg:** There were only four bidders on this bid so from this bid perspective the competitive intensity was not huge and as you know we have our standards of bidding where we bid at a particular return rate and no less than that, hence we are kind of clearly regimentalized in bidding process no matter how the competitive intensity is we stay to focus with our return expectation that is what we bid for.
- Gautam Bahal:** And my understanding is correct that EBITDA and EBIT are not very different for asset because there is not much depreciation?
- Sandeep Garg:** Yes, there is very little depreciation for us. So we want to stay asset light in terms of our way of executing the businesses. As a strength of the business we always would consider that we would want to stay asset like, we would want to churn our completed projects as soon as they are complete so that we can unlock that value as well, so that is the way we will be conducting ourselves going forward. There will always be a respect for capital that we will continue to demonstrate.

- Gautam Bahal:** That is great and Sir just following on from that answer you gave, Delhi-Meerut what are the thoughts on sort of reinvesting those cash flows now and unlocking that value?
- Sandeep Garg:** As soon as we get PCOD we are entitled to churn the asset to certain extent and we would be very happy to look at those options that we can have long-term capital, low cost capital to takeover these annuity debtors.
- Gautam Bahal:** But the O&M revenue and EBITDA from that will keep coming to us?
- Sandeep Garg:** We are flexible as far as we are concerned that whether the incoming investor wants to do the O&M themselves or wanted to do it through us we are flexible on that and we are happy to do the O&M if they want us to do.
- Gautam Bahal:** Sir, just last question from my side, the bonus from Delhi-Meerut what is the total quantum of that for the 14 months that we will be entitled to?
- Sandeep Garg:** Approximately about Rs. 34 Crores. We will compute it as and when we get PCOD, so I do not want to be held to this number. If we have the PCOD we will know exact numbers; however, we share our bonuses with our subcontractors so there will be a sharing of the bonus that we get to the tune of about 50%.
- Gautam Bahal:** Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Dimple Kotak from SKS Capital. Please go ahead.
- Dimple Kotak:** Sir, 700 Crores we have cash on the book, so how much is, you marked already for oil & gas and our infra project is going ahead and what would be the quantum of the free cash flows?
- Akhil Jindal:** Basically, as we mentioned Rs. 120 odd Crores is the cash equity requirement in our projects currently without accounting for the Tamil Nadu.
- Dimple Kotak:** Tamil Nadu comes in because we are already L1 so what would be?
- Akhil Jindal:** If I take Tamil Nadu also it would be close to let us say Rs. 200 Crores I am just doing a very rough estimate from that, Rs. 200 Crores to 220 Crores would be common and hopefully some equity churn would have happened on Delhi-Meerut by that time so may be our net investment would be in the magnitude of around Rs. 100 Crores. You can say 200 Crores to 250 Crores will

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be required as a fresh equity for the HAM projects that we already have plus 150 Crores to 200 Crores on the oil & gas side and that also about two years not immediately.

- Dimple Kotak:** Investment of 450 Crores to 500 Crores over two years?
- Akhil Jindal:** No, the oil & gas side would be requiring around Rs. 200 Crores over two years, the HAM will be requiring another.
- Dimple Kotak:** In FY2019?
- Akhil Jindal:** Mostly in FY2019 some part in FY2020 of around 250 Crores net, so that is the commitment so far and based on the project that we will win further these numbers might go up. Basically, I think the cash is enough for us to be clear in terms of the Rs. 10,000 Crores order book that Sandeep has mentioned and with the churn that is possible with us as the projects are going to get complete some in FY2019 or let us say in the beginning of FY2020, so we would have enough headroom to finance the growth through this cash that we have in the books.
- Dimple Kotak:** And we expect an order inflow of around 5000 Crores this year?
- Sandeep Garg:** Yes, that Rs. 5,000 Crores in addition to the project that we have.
- Dimple Kotak:** Exactly and Sir for the EBITDA margins of 11% to 12% that would be including the other income?
- Sandeep Garg:** No, that will be purely from infra play.
- Dimple Kotak:** From infra play, so currently it is around 4% to 5%?
- Sandeep Garg:** I think we do not understand where it is coming from as 4% to 5%.
- Dimple Kotak:** Sir, there is 172 Crores of EBITDA and 129 Crores of other income, so if deduct 129 Crores from EBITDA of 172 Crores it comes to 44 Crores and our sales is 1067?
- Akhil Jindal:** Certainly it is not 4% to 5% that what you are mentioning. Other income is only Rs. 95 crores, of which Rs. 75 crores is treasury income. There are expenses also with respect to the other income, which are separately booked, so why do not I tell Harish to call you after the call and provide you all the details on the equity margin and other income and other expenses.
- Dimple Kotak:** Sure.

- Sandeep Garg:** Just to clarify to add to a point of what Akhil has said that the other income is not purely the treasury income that you would kind of assimilate, so that is the underpinning assumption.
- Akhil Jindal:** Treasury income is only 75 Crores out of what you just mentioned, so there are many items where there is other income, there are expenses also correspondingly, which are more like Ind-AS related, which all the details Harish can provide you.
- Dimple Kotak:** Sure Sir. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Giriraj Daga from KM Visaria. Please go ahead.
- Giriraj Daga:** Couple of questions from my side, the first from the number side of it. If you look at the segment performance there is a bit of unusual activity in oil & gas and the unallocable expense, so if you can just throw some light there, so we saw the loss is actually reducing sharply there, is there any one off there?
- Kevin Daftary:** You are right. I think last time what you can see was one of the write off was there; this year there is nothing like that.
- Giriraj Daga:** What number looking at is that like year also there is 12 Crores of unallocable expense, which has come down to 3 Crores this time?
- Kevin Daftary:** That is correct.
- Giriraj Daga:** In even in Q-o-Q also it was 23 Crores, so then okay there was certain write off, but year-on-year also it was higher number, so this 3 Crores looks very low, is there any one off gain we included there?
- Kevin Daftary:** No, these numbers are based on some ratios and as our operation goes up this number has to ideally go down, so if you look at our last year's revenue numbers and all comparatively currently there is increase because of which this number looks going down.
- Giriraj Daga:** Not able to actually reconcile, I thought there is more of overhead cost, which was not allocable to either oil & gas or the other infra segment?
- Kevin Daftary:** In overhead we have two sorts of overhead, one would be which is purely not allocable in any proportion it is directly unallocable nowhere related to infra and some unallocated cost, which

are sort of attributable cost to infra and other segment where it will be based on certain ratio, so that is the reason as operation goes up the ratio based overhead will go down.

**Giriraj Daga:** So, the next year number would be multiplication of this fourth quarter number?

**Kevin Daftary:** It is a little difficult to predict, but logically you may be correct.

**Giriraj Daga:** How about oil & gas also we saw the number of 10 lakh loss there compared to 3 Crores run rate what we are seeing?

**Kevin Daftary:** 3 Crores had some one off item.

**Giriraj Daga:** It is over now for time being?

**Kevin Daftary:** We can say so.

**Giriraj Daga:** In terms of order inflow guidance you talk about 5000 Crores of fresh order in infra side of it any ballpark thing or ballpark idea on the FY2020 numbers, what can be that looking like in terms of inflow target?

**Sandeep Garg:** At this point in time there is no clarity from the NHAI the guidance as to what they will be bidding out in FY2020, so anything that we would tell would be just our guessing, so once we have the clarity of the canvas that NHAI and MORTH put together we put in a hybrid annuity model we can make our own assessments.

**Giriraj Daga:** Let me put it in this way may be not per guidance per se, but do you believe that our balance sheet will support additional 5000, 7000 or 8000 Crores of inflow in FY2020?

**Sandeep Garg:** As Akhil was putting across once the current assets, which are likely to be completed in the FY2019 or earlier of FY2020 if we are able to churn surely it can support another Rs. 5,000 Crores to Rs. 7000 Crores of order book without dealing cash.

**Giriraj Daga:** What is the SPV debt in Delhi-Meerut and total SPV debt?

**Sandeep Garg:** Rs. 372 Crores as on March 31, 2018, which of course we have a sanction of till Rs. 400 Crores. We are expecting the closing debt to be in the range of around Rs. 390 Crores.

**Giriraj Daga:** This is only for Delhi-Meerut right?

- Sandeep Garg:** Only Delhi-Meerut.
- Giriraj Daga:** What is the other SPV?
- Sandeep Garg:** It came on to be Rs. 21 Crores, so I think that these are the two debts that we would have got in our standalone.
- Giriraj Daga:** My last thing on the oil & gas segment, what kind of visibility in terms of starting of production basically and any guidance you want to give there?
- Sandeep Garg:** We expect that the first field for which we are doing the field development right now is B9 discovered small field we expect the revenues to start in FY2020.
- Giriraj Daga:** FY2020 and beginning or may be any timeline there?
- Sandeep Garg:** By Q3 or Q4.
- Giriraj Daga:** Sure, thanks a lot and all the best.
- Sandeep Garg:** I would also want to take a cue from your question I would also want to say that the Kim-Mandvi project, which has a small debt, has also been with the client so that debt has been repaid in FY2019 and this project stands close as far as the company is concerned.
- Giriraj Daga:** Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Viral Shah from Emkay Global. Please go ahead.
- Viral Shah:** Good afternoon Sir. Congratulations on good set of numbers. Sir, couple of questions, one when you look at your EBITDA margin for the quarter that is excluding the other income, it stands as around 7% so going forward do we extend this trend to come back to around 10% to 11% or how it will be, that is excluding other income I am talking about?
- Sandeep Garg:** There are two parts of this answer. The question number one, since you are taking off the complete other income from the competition as Akhil had clarified the other income constitutes of two numbers, one is that of treasury income and the other are certain notional entries wherein there is other income at the top and there is a corresponding cost in the other expenses, so if you take off the complete other income there is a skew in the numbers, which Akhil would had told that Harish would clarify going forward. The only point that we would want to say that right now

the other income only Rs. 75 Crores from the other income is the treasury income, rest all cannot be attributed to treasury, so that is something, which you should not be taking off on a yearly basis.

**Viral Shah:** And for a quarter I believe it is 17 if I am not wrong, the treasury income?

**Sandeep Garg:** Yes, 17, 18 whatever the number is.

**Viral Shah:** And secondly since two projects have started execution if I recollect in the call you had given a guidance of around Rs. 2,000 Crores of revenue for FY2019 is that correct?

**Sandeep Garg:** That is correct. We expect the turnover to be in the ranges of Rs. 2,000 Crores.

**Viral Shah:** And for FY2020 it would be around 4000, if I am not wrong?

**Sandeep Garg:** Yes, in that we have an EPC order backlog of Rs. 6,000 Crores, which we intent liquidating in the next two years, so that would be our anticipation for FY2020, I would rather than saying as a guidance that is the high level indication that is possible.

**Viral Shah:** And in the projects, which are operational currently where the execution has started, do we envisage the early completion as well in those projects or still we are looking at?

**Sandeep Garg:** It is early days of the execution right now, but as the plan that we have as a company we are trying to create certain strength for the company and one of the strengths that we are creating is an operational excellence, so every project that we bid for and we execute we are focused on early completion and quality project in a safe manner so this is going to be the hallmark of every project that we are trying to execute, how much we will succeed in each one of them we do not know, but that is going to be the attempt to complete our projects ahead of schedule and as I said since the head of schedule project execution also gives us a benefit in terms of financial results and respect for the capital so that is going to be our mainstay of one of the pillar of the Welspun Enterprise to stay different or one of the USPs that we would have. Also very important for us will be to derisk the business as earlier as possible since we are not the self executors we have the ability to select the contractors who are best suited for a particular job, which gives us the ability to execute it in the fastest in the most optimal manner and these are the few things that we will continue to do going forward.

**Viral Shah:** Secondly, in terms of cash, we had a cash balance of around Rs. 1,000 Crores last quarter and this quarter it is around Rs. 7,00 Crores, so we have invested on Rs. 300 Crores of equity in the HAM portfolio, is the understanding correct or that Rs. 300 Crores are down the barrel?

**Sandeep Garg:** Going on into the funding of the equity because technically we started three projects in this quarter, most of the equity requirements are to be infused upfront so you can imagine that.

**Viral Shah:** Great and secondly your current investments have gone up significantly, what will be that portion and what is that regarding to pertain for the year as a whole?

**Sandeep Garg:** Sorry, would you repeat your question?

**Viral Shah:** Basically, noncurrent investments when you look at on the balance sheet side?

**Sandeep Garg:** Noncurrent investments are basically investment in subsidiaries only, which has gone up, so these are the equity investments that I guess.

**Viral Shah:** On the HAM front right?

**Sandeep Garg:** Yes, on HAM front.

**Viral Shah:** Lastly in terms of strategy when you look at going forward I remember we were looking at monetizing the oil & and gas blocks, but in the opening remarks what we understood is we would not be monetizing the Mumbai block pertaining to, so is the strategy change for us or it is the same going forward?

**Sandeep Garg:** As I try to clarify the reason of relooking at the Mumbai block was that it is absolutely adjoining to our discovered small field B9 one of the edges is touching the Mumbai blocks since we were mobilizing for drilling in B9 there was a rationale to say additional one well do we need to mobilize another rig and diverse at this point in time knowing fully well that that on both sides of that block ONGC already has find two wells, which we can see in our seismic that the veins are passing 70% through us to transfer this to ONGC and we decided that it was prudent and it will create more value for the stakeholders if we were to drill the additional well, so that additional well drilling would push the reserve and hence allow us to have a better monetization of the asset.

**Viral Shah:** So when do we expect the revenue to come in?

**Sandeep Garg:** In oil & gas it is a long gestation period business, so once you have proven that there is a find then it goes into an appraisal program, which takes two to three years and then once you are appraised the field that it takes about two to three years to do the field developments of it, so post the finding of the gas it is about five to six years before you see the revenues; however, in this case of the Mumbai block since the infrastructure of ONGC is adjoining and they are keen to

join this particular block along side with us I expect the monetization to be quicker than taking four, five years.

- Viral Shah:** Fair enough and all the best. Thank you.
- Moderator:** Ladies and gentlemen, we have lost the line for the current participant. We proceed with the next question from the line of Divyata Dalal from Systematix Shares. Please go ahead.
- Divyata Dalal:** Good afternoon Sir. Congratulations for very good set of numbers. Sir, my question pertains to the order book of Rs. 6,000 Crores, which we mentioned currently will it be possible for you to provide a breakup of the same project wise?
- Sandeep Garg:** So the unexecuted orders are to the tune of about Rs. 25 Crores, 30 Crores in Delhi-Meerut the Aunta-Simaria is about Rs. 980 Crores. MBL CGRG and GSY put together about Rs. 1,700 Crores, Chikhali-Tarsod about Rs. 1,050 Crores and about Rs. 60 Crores of Dewas Water and the new project that I have opened L1 about Rs. 1650 Crores, so that should add about Rs. 5500 Crores and as I said this excludes the escalation and the change of scope, which should push this whole thing up to about Rs. 6,000 Crores.
- Divyata Dalal:** Change of scope would be in which project, you could have seen this?
- Sandeep Garg:** The change of scope is in practically every project other than possibly Aunta-Simaria every other project we will see some change of scope to some extent.
- Divyata Dalal:** Sir, in terms of the order inflow guidance, which we said additional Rs. 5,000 Crores in the infra side is excluding the AP project, which we won recently right?
- Sandeep Garg:** Tamil Nadu project?
- Divyata Dalal:** Yes, Tamil Nadu project?
- Sandeep Garg:** That is excluded.
- Divyata Dalal:** And the Rs. 1,000 Crores of Inland Waterways also excluded in this?
- Sandeep Garg:** Yes, we are not right now counting on Water transportation that will be our desire to set up the water business we are still in the stages of getting the team on boarded. Once we have the team on boarded we will develop our business plan, but the intent is to try and take some baby steps in this year and see if we can bid and book an order book of about Rs. 1000 Crores. As you know it

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is a synergistic play from a growth perspective. We already had some experience on water both in terms of Dewas Water and EPC project in Mohali, which augurs to expand this business went forward.

**Divyata Dalal:** This would again be on the HAM side water?

**Sandeep Garg:** It is not necessarily, it could also be on EPC business for water.

**Divyata Dalal:** That is it from my side. All the best.

**Moderator:** Thank you. We take the next question from the line of Tarun Kaushik from Yes Bank. Please go ahead.

**Tarun Kaushik:** Question is regarding whether Welspun one time had also investments in BOT assets so what is the strategy going forward in that given the fact that there is a lot of BOT assets, which are available at a good price right now with the derisking that is happening by lot of banks, then what about the TOT bids would Welspun Enterprises we looking at bidding for any of these, then on the steel side and the steel business is kind of related to Welspun Enterprises or will there be a separate call to understand what is the strategy for the steel subsidiaries that Welspun Group owns that is number 3, number 4 if you can just elaborate a little bit on why there is so much cash in your balance sheet, is your EPC model dependent on the fact that you get a lot advances from the government and then basically work, why there is so much cash on the balance sheet unlike most of the EPC companies?

**Sandeep Garg:** There is no direct correlation between Welspun Enterprises and the steel business so we would not be able to comment upon that.

**Akhil Jindal:** There are no equity holdings. There is nothing that we hold on the steel side.

**Tarun Kaushik:** Akhil Jindal is on the call and I think he is a group CFO, so I just want to understand that, so we will have a separate call on that thanks.

**Sandeep Garg:** Answering the first two questions are we looking at the acquisition of the BOT asset or tabling in TOT, answer is at this point in time we are not, we do not close doors for anything, if there is an opportunity, which comes in which way we believe means our rethinking of a particular thing we will, but at this point in time there is no thought process on those two directions. The last question was about the cash. The cash has been because of the prudent decisions that were taken for the last three years. We exited the business from late investment and got almost Rs. 600 Crores, we exited the businesses of energy, which gave us a cash of another Rs. 300 Crores, so it

is a prudent decision makings in past to create watchers that is the cash that we have. I do not think the cash represents the advances from the client.

**Tarun Kaushik:** So what is the plan for the cash because return equity is around 6% based on your latest numbers so why do not you return the cash to the shareholders?

**Sandeep Garg:** We already had declared a dividend of 15%, so we are sharing the money; however, as I said as Akhil also pointed out with the broke in the business that we see from 1000 to 2000, 2000 to 4000 we believe that this cash can be deployed very effectively in the business and get better returns and this returning get back to the shareholders and if you would recollect we did a buyback about a year back as well wherein we were willing to buy about 25% and only 15.5% was tender, so we are trying to share the profits of the company with the shareholders and we do believe that there is a fruitful deployment of the cash going forward as a business process.

**Tarun Kaushik:** You got 10000 Crores order book, the maximum cash required for executing based on net working capital of such an order book would be 100 to 200 Crores, you got cash of around 720 Crores as on FY2018, so the remaining 500 Crores not really value accretive to the shareholders?

**Sandeep Garg:** I do not understand your maths, if we have order book of Rs.10,000 Crores?

**Tarun Kaushik:** 10000 Crores order book typically you will have receivables and payables, the net working capital will not exceed this much?

**Sandeep Garg:** No, look the missing link you have said equity investment that is required in this project also, which of course in two to three years time cash paid for.

**Tarun Kaushik:** That you can do a bank guarantee right?

**Akhil Jindal:** No, equity payment, look all these projects needs equity, we are developer. We are not just the EPC player we are the developer and as a developer we have to put in our own share of equity in all this HAM projects, so as I mentioned earlier in our call we have almost 250 to 300 Crores of further equity requirement in the project that we have, of course in oil & gas business, all and all this cash is more or less year mark and it will as Sandeep mentioned generate a decent amount of returns for the shareholders.

**Moderator:** Thank you. We take the next question from the line of G. Vivek from GS Investments. Please go ahead.

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**G. Vivek:** Congratulations on good set of numbers. Two, three queries, there has been some slight fall in the margins, is it due to our policy of employing subcontractors and not owning the equipment and due to that huge amount of work being given in the sector, is the subcontractor also fighting for higher margins number one, number two, Aunta-Simaria commissioning date it is getting postponed again and again is there some sort of problem in that?

**Sandeep Garg:** First of all responding to your question of whether the erosion on the profit is because of any increase in cost of subcontracting base, subcontracting is on a fixed price basis it does not reflect any of those variations. There are no such pressures on the margin. The reason of you seeing a small drop could be that there is an increase of cost on project because we were expecting them to be starting much earlier and we had started building the teams for that, those cost have been incurred in advance before the actual revenue started to come in and that is the part of our growing company that you will need to build up the teams in advance, so till the time we come to a stable operation level quarter-on-quarter there could be some variations because we have been preponed some expenses so that is the only reflection there. As far as the Aunta-Simaria appointed date is concerned it is primarily from a perspective of we had forecasted that it will be somewhere in the end of Q4 or early Q1 of FY2019 the reason is that there are certain farming areas where the farmers had already put in the crops and as you know the farmers they have put in the crops the land even if we have paid for it can only be taken over without a major resistance once they have harvested the crops. The harvesting of crops has taken place at the end of April, so we expect those lands to be cleared and handed over to us now.

**G. Vivek:** How is the progress of GSY and other projects happening, I believe the commissioning got postponed over there also and any other stressed assets we are trying to procure?

**Sandeep Garg:** Let me first clarify that this is not the commissioning date that is the appointed date. Appointed date is a function of me meeting the obligations of the condition precedent such as the financial closures, etc., and the land available we will see from the client end, so certain clients may not have sufficient land and to derisk the business we do not take over the projects or get the appointed date issued of a project until we have an absolute clarity that the project can be completed in the timeframe that we have set out to. So these delays are more from a perspective of derisking the business so that we have enough land availability so that we can progress the project at the rate that we need to. So there is no concern as such it is primarily a derisking exercise that we do.

**G. Vivek:** Got it and any other stressed asset due to cash position are we able to get hold of any good lucrative project for us the stressed asset, Maharashtra project we got any date has been appointed for that particular project also?

**Sandeep Garg:** As I said we expected in Q1 of FY2019. The financial closure is already done, so it is only a matter of one more agreement to be signed with the government and the appointed date should be.

**G. Vivek:** And the opportunity size remains intact for our sector and our company?

**Sandeep Garg:** Yes, there is definitely as you know the sector is definitely the sunrise sector and as a company since we are one of the few companies, which has a very strong financial balance sheet we have a very good operational excellence that we have done Delhi-Meerut project, which has created a lot of goodwill with the customer and we had been very prudent in our bidding strategy so we expect as a company our futures are very much secured.

**G. Vivek:** But, I saw your work in Meerut expressway and it is really good and exemplary, but still it all boils down to L1 basis only or is there some edge, which we are able to get because of beautiful execution we had in terms of more technical ratings or something techno-commercial bidding something advantage, which can accrue to us due to this wonderful execution of Meerut expressway?

**Sandeep Garg:** Yes, there are few things that one I will suggest that this question you also raise to the ministry and NHAI for them to incorporate the performance into the criteria of evaluating future bid; however, that is not withstanding just because we have executed so well, if there is a stress project in NHAI/MOT they have definitely recommended to us to the concession that they approach us because they know if we take it up the project is going to be executed in a better manner so that opens up a lot of opportunity for us and as we understand NHAI has now started rating the contractors or concessioners going forward, hence we believe it will be a matter of time before this becomes a part of their evaluation criteria, we hope this is sooner than later.

**G. Vivek:** We saw that in that Muzaffarnagar, Dehradun, Haridwar expressway horrible situation, years have elapsed and progress has not happened much actually and so some weightage on what should be given technically also I believe.

**Sandeep Garg:** Thank you for mentioning it. I would suggest that you do mention in your interaction with the leaders of NHAI and MORTH.

**G. Vivek:** Thank you very much. Keep up the good work Sir.

**Moderator:** Thank you. Well due to paucity of time we will take the last three questions. Next question is from the line of Ankit Kumar from Bondane Securities. Please go ahead.

**Ankit Kumar:** So for this year as I understand the treasury income was about 75 Crores out of other income of 95 Crores and in the bottomline if we see with a comprehensive income of 108 Crores, 55 Crores that is roughly 50% of the total income after tax was from these treasury operations, now this year due to better equity outlay and the capex plans for oil & gas the cash in hand would reduce, which would reduce the other income also, that is from the treasury operations, so can you give a guidance as to how much this could be first part and second part, the other part of the other income, which is 95 minus 75, 20 Crores if the scale up operations grow is this other income also going to grow or it is going to remain stable?

**Akhil Jindal:** There are two parts. I think treasury income is one question that you asked. So we believe that the company will have average balance Rs. 400 Crores so with the prudent norms and the guidance that the board has kept with the investment we believe anything between 8.5% to 9% is the right number for us to look at that, so if I consider Rs. 400 Crores as an average cash balance during the year may be at 9% we are looking at roughly around  $9 \times 4$ , 36 Crores, let us say 40 Crores as a treasury income a very, very rough back of the envelope calculation so that is question number one.

**Kevin Daftary:** On question number two this difference between Rs. 95 Crores and Rs. 75 Crores is related to certain adjustment more or less it would be in the same range. From this Rs. 20 Crores significant chunk of amount comes from a notional entry of Ind-AS, which is actually some portion of interest on loan within the group. For simplification we can say, one portion is captured in the other incomes and same is captured in the other expenses, which is also related to Ind-AS, so it is grossing up, which is happening and practically we for our internal purpose try to remove this while calculating our EBITDA.

**Ankit Kumar:** Thank you for the explanation. The reason why I asked this is the next year we are targeting revenues of about Rs. 2,000 Crores from the infra business, the bottomline after tax comes to about 5.5% to 6%, so an incremental Rs. 1,000 Crores revenue would bring in about 55 Crores to 60 Crores of profit after tax and the treasury income would reduce from 75 to 40, so net, net plus 55, 60 and minus 40 Crores when you look at the bottomline after tax, so the treasury income would reduce by say half and the infra income would increase by 6% of 1000 Crores, which is about 55 Crores, 60 Crores roughly basis?

**Sandeep Garg:** We just do not understand this 6%. I think as we have said the stable EBITDA margins or the EBIT margins would be in the ranges of 11% to 12%, so what we need to work that is the forecast is on that basis so rather than on a basis of current numbers because that is possibly a misnomer.

**Ankit Kumar:** But even for last year or for this year or the quarters of these four quarters of this year EBIT I agree is about 11%, which should be about 11% to 12%, but when we remove the treasury income and see at the profit after tax as a percent of income of infra it does come to about 5.5% to 6% is what I am trying to say?

**Sandeep Garg:** Are you taking off the interest on the treasury as well from there?

**Ankit Kumar:** Yes, absolutely.

**Sandeep Garg:** So it is double dipping or triple dipping here so I think the numbers need to be put in perspective if you are taking off the income of Rs. 75 Crores you need to take off the taxation associated with that.

**Ankit Kumar:** Absolutely taken out, so the treasury income is 75 Crores I have resumed the tax of 30%, so it comes to 52.5 after tax income from treasury income; correct me if I am wrong?

**Sandeep Garg:** So I think it is a too detail for us to go into this call, I would suggest that you get in touch with Harish if you need to understand these numbers a bit better, but all I can say to you is this computation does not seem to be the computation that the way we see it. So I would strongly recommend if you could get in touch with Harish he will take you through these numbers along side with Kevin.

**Ankit Kumar:** Sure.

**Moderator:** Thank you. We take the next question from the line of Anil Daga, Individual Investor. Please go ahead.

**Anil Daga:** Good afternoon Sir. Congratulations to the team for strong set of numbers. I had a very small question pertaining to, what I see is competition is bagging a lot of projects and on the other hand if we look at the ratio of cash available to us to our order book or our total revenue that is pretty less, so I was hoping that you will be very aggressive in bidding for orders and on the other side I also understand that we have to be prudent to protect our margin, so is it that our margin requirements or our return thresholds are higher than competition, which is resulting in lower than expected order inflow?

**Sandeep Garg:** Let me say that I do not know what the competition is thinking. As I had said in the last year's discussion we wanted to book an order backlog of about Rs. 4,000 Crores, which we achieved last year. We are very prudent in at what rate of growth, which should go, so it will become sustainable, so a prudence in bidding and prudence in execution, so execution excellence will

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also come because you need to build up the organization to be able to deliver it on a consistent basis, so everything that we are doing has an aspect of sustainability and prudence there. We have our own set of return expectation and we do not compromise it, no matter how intense the competition is or what the principles that we have lot of cash or not, is this cash, which allows us the flexibility to push the jobs away we could push the Delhi-Meerut project, so this is something, which we will maintain going forward. This will be a USP as I said for us that we will be prudent and we will be concentrating on operational excellence, so we would not see us go berserk just because we have the potential to generate money that we will go berserk in booking the orders.

**Anil Daga:** Thank you Sir. My next question is considering that the opportunity size is so large do you think that this year I understand the cash, which is available will be sufficient to build the order book for this year as per our projection, but do you think there will be equity requirement, some kind of valuation, which will be required or something of that sort, which will be required say for building the order book of FY2020?

**Sandeep Garg:** I think it will all depend upon how the order built take place and it will all depend upon how the water segment shapes up, to answer your question at this point in time we do not foresee any need of cash for FY2019, FY2020; however, if the business grow in a pace faster than what we are currently forecasting we do not know the answer, so we have not applied our minds towards that.

**Anil Daga:** And my last question is so you mentioned at various points of time that you have certain return threshold requirements and you want to have prudence to generate the required returns for the shareholder so I understand that right now our business is growing up, it is scaling up, it is slow and near the stabilization kind of a phase, but may be next year will be a stabilization kind of a phase, so in that what kind of return or equity you all are trying to project or deliver to the shareholders?

**Sandeep Garg:** The numbers that I have said the infra numbers in EBITDA to be in the ranges of 11% to 12% going forward. These are the numbers that we would be returning; we would have available for the stakeholders to take credit off that is the best estimate that I can give you.

**Anil Daga:** Thanks a lot.

**Moderator:** Thank you. We take the next question from the line of Devraj Rada, Individual Investor. Please go ahead.

**Devraj Rada:** Can you please help us to understand the oil & gas wherein the Q3 presentation it was mentioned value accretion expected of around Rs.5 billion, this is expected in this FY2019–FY2020 or over the period of time?

**Sandeep Garg:** It is over a period of time when these assets that we have under the exploration from discovered stage. They all will start generating revenues that possibly would be our estimate of what this business could throw up that is not happening in near future. So the first revenue from oil & gas at the earliest will be in FY2020.

**Devraj Rada:** Sir, that will be in FY2020 and if crude prices go up will it, be having any effect or some contract difficulties with ONGC?

**Sandeep Garg:** In terms of oil & gas, the oil& gas is other than the discovered small field business is a controlled business, so not very much changes in terms of profitability when the crude prices move for the oil & and gas operators.

**Devraj Rada:** Thank you.

**Moderator:** Thank you. We take the last question from the line of Asn Raju. Please go ahead.

**Asn Raju:** Good afternoon Sir. I am happy with all the things happened from last three, four years, but I want my company should execute by own extensor as the competition is gearing up why cannot we have a own execution team at least for one or two projects?

**Sandeep Garg:** Mr. Raju this is a kind of a decision at the operating level and the rationale as to the best of my understanding is that we have been trying to explain is, we see company currently has a clean canvas. We are not bogged down by the capital assets or pass the construction equipment or pass the manpower sitting, if you look at most of the EPC contracting businesses if they are going beyond a particular rate in the business, which is wherein we have expectation of a very rapid growth going forward they need a lot of money in terms to be deployed for the construction equipment and things like that. Now given that the businesses do not have a visibility of five, seven years on which this capital equipment need to be depreciated there is inherent risk of, should we are rescaling in the business going forward then you are left with lot of invested capital that you need to deploy to keep the margins in some range and we do not want to come under that pressure and secondly if you look at it the entry barriers in the EPC margin are absolutely nonexistent and hence as the volumes grow the new players will keep on coming in and hence it is not going to be a value accretive business based on the deployed capital and the employed manpower, so it is a considered view of the management to stay away

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from self execution because then we will be competing with our own supply chain, which is the subcontractor base.

**Asn Raju:** I can understand you, but our subcontractor got around Rs. 25 Crores of profit, which we got in Delhi-Meerut only, the profit is sharing by both of us and he is also getting 25 Crores around I think, 17 Crores of that early bonus for him and he will be earning something, as the competition is gearing up with lot of works coming up no subcontractors will be quoting for lesser rates how far the premium bids because there are work everywhere in the country?

**Sandeep Garg:** As I said in my address I have been able to close all the contracts for the projects that we have won within the cost that we had estimated at the bid stage, so it is not true that the cost are escalating as far as the subcontractors are concerned, also there are very few players who have pan India ability to efficiently self-execute; however, if you are self-executor and you get a project in Karnataka or in Tamil Nadu you need to deploy your own equipment and your own manpower and bring in inefficiencies, so there is a risk, we are very much also prudent risk taker when you subcontract certain things you have an ability to derisk the main company by taking certain documents of negotiation having certain cash, block of the subcontractor, etc., which allows us to protect the main company from any vagaries that may happen, so I think it is a prudent decision that we have taken and we are very successful till now; however, I have taken this as recommendation of yours a note of.

**Asn Raju:** You are going to bid for 330 billion, so at this juncture definitely is this required for our own thing to execute one or two projects if any subcontractors live in the middle we can execute?

**Sandeep Garg:** Mr. Raju since it is getting to a detailed question and philosophical question of how to conduct a business I have taken a note of your recommendation I would suggest that if you feel strongly about it let us take it offline.

**Asn Raju:** Thank you and the other thing is last year our treasury income is Rs. 75 Crores, the remaining income is only from business, which is comparatively less I have seen that?

**Sandeep Garg:** As I said equally hopeful about it.

**Asn Raju:** Thanks a lot.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Shravan Shah for closing comments.

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**Shravan Shah:** Thank you everybody and thank you management for giving us the opportunity. Sir do you have any closing comments?

**Sandeep Garg:** Thanks for organizing it and thanks to the investor for coming on the call and raising the questions we appreciate. Thank you.

**Moderator:** Thank you. On behalf of Dolat Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.