

**Welspun Enterprises Limited Conference Call
August 17, 2015****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 – M.D., Welspun Enterprises; Mr. Akhil Jindal – Director, Group Finance and Strategy. As a reminder, all participants' line 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 phone. Please note that this conference is being recorded. I now hand the conference over to Sandeep Garg. Thank you, and over to you, sir.

Sandeep Garg:

Thank you. I am Sandeep Garg. Thanks for joining us on this call. Let me introduce the team which is here along with me is Mr. Akhil Jindal – who is Director- Group Finance and Strategy; the CFO – Mr. Shrinivas Kargutkar; Mr. Kevin Daftary – who supports Mr. Kargutkar; Mr. Harish Venkateswaran and Mr. Subir Sen from the Investor Relations team. Thank you very much once again for joining us.

I would want to take you through the journey of Welspun Enterprise which started with the demerger of the entity from Welspun Corp. on April 2012. Since we have not spoken, I thought it will be a good idea for me to take you through what has happened since then to now. When this company was demerged, the gross debt on the company was about Rs.1700 crores and a net debt of about Rs.700 crores. All the assets that were other than the Pipes and the Plates, Welspun Corp. demerged and this entity called Welspun Enterprises was formed. We started working on this company, looking at various investments, various companies within this Welspun Enterprises as demerged entity and identified some potential for divestment as well as for sale of an entity. In this direction, because the infrastructure play which was the basic business of the operating company, then known as Welspun Projects, was not in a very good shape. We decided to create value for the stakeholders by looking at opportunities of divestments and getting out of the businesses which were not doing so well. In this direction, the first effort that came into fruition was our sale of stake in Leighton Welspun. Leighton Welspun, as you may know, we held an equity of about 40% which we divested in the February 2014 and created value for the shareholders. The total consideration received for the stake sale was Rs. 620 odd crores, some figures I may not be exact on. Thereafter, we went ahead to look at selling the entity Welspun Maxsteel, which was having a debt of almost about Rs.1100 crores and was making substantial losses. The entity was divested to JSW Steel in October 2014 which led to a net debt reduction of almost Rs.800 crores on a like-to-like basis but in absolute terms of about Rs.1100 crores. Whilst this was going on, we continued to invest into our oil & gas sector wherein we had certain promising opportunities, some E&P play and we invested almost Rs.150 crores.

Last but not the least, we also started rationalizing the structure of the entity. We did a merger of all the entities into Welspun Projects Limited and renamed it as Welspun Enterprises Ltd with the appointed date as 1st of April 2014. Thus, creating an entity which was operating, which was lean and easy to understand.

Currently, Welspun Enterprises has one major business line which is Infrastructure. In terms of the other businesses where we have investments, one is oil & gas, and the second is energy.

The current balance sheet major figures that you may want to know that we have a net debt of Rs. - 510 crores (i.e. net cash of Rs, 510 crores) and Gross Cash Balance of around Rs. 800 crores at the end June 2015. The net worth of the company is right now about Rs.1500 crores and as you would see being in an infrastructure play it is one of the companies which is on a very strong platform to launch into the business that is right now being offered by the government.

The current status of our operations in Infra side are that we are operating 7 BOT assets, 5 in Road, 1 in Water and 1 in Bus Terminal. On the EPC side of the business of Infrastructure, we have current

backlog of order of about Rs. 80 crores. As I said earlier, because Infrastructure was not doing very well, we decided not to grow into EPC business which was becoming a leading business for most of the companies. We believe that the time has once come back where we can start growing in this business and hence as I would want to brief you, we would like to participate in the new businesses that are being offered by the Government.

On the Oil & Gas side, all our assets are in a joint venture with Adani Group, wherein we hold 35% equity. There are only three relevant blocks at this point in time – two in Kutch and one in Mumbai. The Kutch blocks are operated by ONGC and we have a minority stake in those. The Mumbai block is solely owned by the joint venture.

On the Investment in Energy business, we have invested in Welspun Energy which is restricted to about investment amount of Rs.90 crores. The entity at this point in time is operating Solar and Wind Projects of 450 MW that is approximately 400 MW is the Solar and 50 MW is the Wind.

With this background, I hope you would have appreciated that it has become a very lean structure within the organization. Going forward, our views are that Infra as a whole is giving some opportunities which are interesting and we have identified some niche areas to operate in. The first niche area that we are deciding to operate in is Hybrid Annuity model. As you may be aware, Hybrid Annuity is a new model on which the first bids are out recently, in which the government is funding approximately 40% of the project cost bid by the winning proponent, the balance 60% is to be arranged by the proponent by way of debt and equity. The returns of this investment are given over a period of 15-years in three cash flows – one, the return of invested amount of 60%, duly increased by the indexation up to the time of construction in various percentages of over the period. Second, cash flow stream is the interest on the reducing balance at a bank PLR plus a percentage. At this point in time it is 3%. The third stream is cost of operation and maintenance which is also a bid parameter and it is indexed to the costs over the period of 15-years. So, from a simple explanation of the model you would appreciate that this is relatively a very low risk business and it gives a very stable revenue stream once commissioned. The counterparty risk being very low, being the Government. So, this model is something which gives us an edge over most of the players in Infrastructure side. We believe that with a strong balance sheet that we have, we do have an advantage over most of the Infrastructure players, as well as because we have been operating and maintaining the five BOT Road Projects we have learnt how to effectively manage the operations and maintenance of these roads and hence can leverage on existing assets. So, this is one model which we are currently looking at very positively.

The second niche area that we are trying to study and look into is the decision of government to divest the completed BOT Road Projects with Toll Collection history. Once again, the principle remaining unchanged that it is relatively a very low risk business because the projects are complete and there is a history of Toll Collection at least of two years and hence it ultimately once again boils down to effectively managing the operation and maintenance of the Road in which we have developed skills within the company. So, that is another business that we are looking at.

The third business that is offering some interest and we are still not very aggressive on it because the Government itself has not finalized the way forward on it but the Express Ways which are being announced in which though they are BOT assets, but the terms and conditions of the contracts are supposed to be very investor-friendly and execution-friendly and hence we are looking at creating joint ventures with international companies to create a business line. In addition to this, we will continue to do projects in water, which is another major infrastructure field.

On the Oil & Gas side, in addition to exploring and operationalizing the current three fields that we have, we are also looking at operating asset in USA, Canada and India. These are the territories where we feel comfortable both in terms of our knowledge and the regulatory framework.

The final point that I would want to make is that we are alive to creating value for the shareholders and wherever possible we would want to unlock and continue to look at assets. If there is any asset which can create value for the shareholders, we would continue to look at it positively.

With these remarks, I would want to request the investors to seek any clarifications that they may want to. Thank you.

- Moderator:** Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Sir, a few questions on the new business which you would be looking for since you are holding cash of more than Rs.800 crores. So basically if I understood from the commentary which you gave, so you are saying your EPC order book is Rs.80 crores. So, you would not be doing any further EPC after this is completed or my understanding wrong in this?
- Sandeep Garg:** No, the intent is to do the EPC in a cautioned manner. We had not grown the business in past because EPC pricing on the Infrastructure was going haywire. Currently, we are monitoring this field and if recent bids by the certain bidders on major projects is a guideline, then the industry is regulating itself. And if that will be the case we will re-enter EPC with caution.
- Bhavin Chheda:** Second thing on this Hybrid Annuity model which you spoke about, is this in the Road space?
- Sandeep Garg:** That is correct, it is in the Road space.
- Bhavin Chheda:** Even the government what you said they may divest the completed projects, that too maybe in the Road space, right?
- Sandeep Garg:** That is correct.
- Bhavin Chheda:** So basically, as of now, any future opportunity you are looking only on the Road side?
- Sandeep Garg:** As I said, the details of certain road niche areas where we are looking at, but we will continue to look at water which is another core strength area for the company.
- Bhavin Chheda:** This 7 BOT assets, if you can give us what would be the top line and the EBITDA run rate as of now and what are the timelines of expiry of those BOT assets?
- Sandeep Garg:** These are various BOT assets which probably the end at being as close as January '16 and the last being extended to June '37. There are various timelines on which the concessions come to an end. At this point in time, the approximate revenue from these is Rs.75 crores on an annual basis.
- Bhavin Chheda:** Any margin guidance on this?
- Sandeep Garg:** They are recovering their costs at this point in time. EBITDA is in the range of about 70-80%.
- Bhavin Chheda:** The Energy space this Rs.90 crores is for 15% stake, right?
- Sandeep Garg:** Yeah, that is correct.
- Bhavin Chheda:** In oil & gas blocks, you said you have invested Rs.150 crores. So, is this is the equity investment?
- Sandeep Garg:** This Rs.150 crores that I said was the investment between the period of April 2012 till now and that is an investment as an equity.
- Bhavin Chheda:** Because I believe there are certain loans and advance also. So, I think the exposure in oil & gas is more than Rs.150 crores, right?
- Sandeep Garg:** It is not the total exposure we are talking about. If the total exposure is being talked about, right now the Welspun Group's exposure on oil & gas side is about Rs.450 crores.

- Moderator:** Thank you. The next question is from the line of Raju ASN from Network Stock. Please go ahead.
- Raju ASN:** In Telangana, there is a big project called Water Grid Project. It is more than Rs.20,000 crores of pipeline surrounding the city and nearby sources. Is Mr. Garg aware of this project? And so many water projects are in other cities, in these new building other cities and all by the Government of India and states.
- Sandeep Garg:** Yeah, we are aware of most of the Water projects that are being proposed in the country. I would not be in a position to confirm the exact details that we have about the project but we are aware that Andhra Pradesh is coming up with large projects at this point in time.
- Raju ASN:** Mainly pipe is from Welspun Corp. Are you interested to buy Pipe or manufacture Pipe and participate in these big projects?
- Sandeep Garg:** The pipe is not necessarily from Welspun Corp., it is on a merit as Welspun Corp is effectively going to supply the pipe on the market prices for sure, but it is on merit whichever manufacturer gets it. We operate at arm's length distance. The local manufacturing or manufacturing of the pipe locally at site is right now on a kind of reducing speed that business is reducing because most of these governments are right now insisting upon factory manufactured pipes and certainly they are very voluminous to transport, that is our understanding, and they are also seeking CLP kind of coatings which are difficult to do at site.
- Raju ASN:** So you want to participate in Pipe aggressively?
- Sandeep Garg:** Yes, we would.
- Raju ASN:** Water and oil? Sir, during the CNBC interview, you had quoted that Rs.2,000 crores is your net worth and Rs.800 crores is cash. Today, you are talking about Rs.1500 crores net worth. Is there any differentiation – have you booked any loss in any entity...?
- Akhil Jindal:** The figure that you might be quoting or you might be seeing is pre-Maxsteel exit. Since we have sold Maxsteel obviously, the net worth has become Rs.1541 crores as on today; Rs.1516 crores as on June '15.
- Raju ASN:** We see that management and the court team is not concentrated in Welspun as the wealth is not so created, compared to any other Welspun Group Companies?
- Akhil Jindal:** That is a very incorrect statement, it is also a very loaded statement if I may say. Management is equally focused on all the businesses. Obviously you can see the amount of changes that has happened in this company which Mr. Garg mentioned in the beginning when this company was virtually split there were a lot of issues in many of these assets, but we could find solution around many of these things and now today, our net debt is a negative figure of almost Rs.-515 crores which otherwise was Rs.+1500 crores, almost Rs.2000 crores of debt have been reduced from the books of the company. So, a little unfair to say that ...
- Raju ASN:** I am very sorry if you understand so wrong, but every other company is a dividend paying company whereas in this company...
- Akhil Jindal:** It will also become. Give us some time. I think a lot of court correction has happened in this company. So, obviously with your wishes...
- Raju ASN:** I can understand all the Infra business. Currently, L&T to a small company, everything is suffering of cash for the current projects which they are holding and they may collapse also if they cannot get cash in. Currently Welspun is going in a right direction in Infra as I assess.

- Akhil Jindal:** Which is what our focus was to deleverage the company as much as we could and can keep some handy cash for our growth capital. I think management so far has succeeded in that. So given the right opportunity it will grow those businesses also.
- Raju ASN:** In Welspun Renewable Energy there is a stake of Welspun Enterprises. Why cannot we sell it and get good cash as it is not our core businesses?
- Akhil Jindal:** Over a period of time, that may be one of the possibility, but at this juncture we are happy with our 15% stake and going forward ...
- Raju ASN:** What is the realization sir?
- Akhil Jindal:** As Mr. Garg mentioned, almost 450 MW are complete and another 300-400 MW is going on in the various stages of development. So, this investment will certainly give good returns.
- Raju ASN:** Welspun Enterprises is having a very big opportunity in Welspun Energy, Tower Installation and all businesses, but company is not doing so.
- Akhil Jindal:** No, we are into Tower Installation, we have not undertaken any projects so far on any Tower Installation.
- Raju ASN:** Tower or Solar?
- Akhil Jindal:** Nothing.
- Raju ASN:** Why cannot we look into that business, it is a big business sir?
- Sandeep Garg:** It is a question of the core competence the company currently has. That is a very highly mechanized and very highly capital-intensive business to get into. Our models that we have tried to work out now is going to be asset-light execution models. So, hence, that may not synergize with our thought process.
- Raju ASN:** So we hope with good top line and bottom line in near future, sir.
- Sandeep Garg:** Thank you. We appreciate your support and with all your support I am sure this company will see much higher than that.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Garg for closing comments. Thank you. And over to you, sir.
- Sandeep Garg:** Thank you, everyone for participating and supporting us. It will be our pleasure to be in touch with you. We see a journey ahead to be much more exciting going forward and then we would look forward to your support. Feel free to ask any questions that may come to your mind.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Welspun Enterprises Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.