

Welspun Enterprises Limited

Business Updates Post Q1 FY17 Results Conference Call

September 19, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Welspun Enterprises Limited Conference Call for Business Update Post Q1 FY17 Results. From the management we have today Mr. Sandeep Garg – Managing Director of Welspun Enterprises; Mr. Akhil Jindal – Group CFO & Head: Strategy and 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 phone. 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. Akhil Jindal who is supporting me from the financial side of the business. I also have the CFO of Welspun Enterprises, Mr. Shrinivas Kargutkar assisted by Mr. Kevin Daftary. We also have the IR team of Mr. Harish Venkateswaran and Mr. Subir Sen .I would want to begin with a good note -- I am sure a few of you would have noticed that Welspun Enterprises is the first company in the country who has been able to do a financial closure for the awarded project of Delhi-Meerut Package-I. To put it in perspective, I would like to tell you that NHAI awarded 11 projects up to March 2016 and only 1 project has been financially closed that is by Welspun Enterprises which is the Delhi-Meerut Package-I. On this occasion, NHAI Chairman graced the occasion and also addressed the media on the successful financial closure. This means that Welspun Enterprises has completed all its conditions precedent for this contract and are waiting for NHAI to conclude theirs for the appointed date to happen. We expect the appointed date to be around 15th of October based on the assurances given by NHAI.

I would also want to share with you a good news in terms of Oil & Gas that ONGC has now decided to go ahead and start the appraisal wells in the two blocks that we have a joint investment with them. Both the Kutch-I and Kutch-II blocks, they will start the drilling in November 2016 and expect the drilling to be completed in about 60 days.

Coming to the most talked about issue of Welspun Renewables Sale. As you may be aware that the deal has been concluded. To put it in perspective, Welspun Enterprises holds approximately 15% in Welspun Energy and the entity which has been sold which is Welspun

Renewable which is below Welspun Energy, our financial or economic interest is approximately 13.66%.

With these three good news, I would want to take you through the other issues to just let you know that we are currently operating six BOT assets - five in Roads, one in Water. The one in Water which we have been talking in past which is Dewas Water. We have a good news to share that the cabinet has given a permission to proceed with the Swiss challenge and the bids are out. The bids are due to be put in by competing parties by 3rd of October.

The Oil & Gas business as you are aware that it is held as a joint venture company with Adani and it has three blocks which are relevant – two in Kutch and one in Mumbai. The two blocks in Kutch, the appraisal program is expected to be started by November 2016, as I mentioned earlier. On the Mumbai block , we have farmed out to ONGC. We are awaiting the approval from DGH or Ministry for entry into Phase-II which we expect shortly and the drilling program for the Mumbai block will start thereafter.

I One of our blocks- Palej - was terminated because of issue with one of the consortium partners ; we are quite hopeful that particular block in Palej is likely to be revived. There is a policy being made as we speak by the Ministry on that subject.

Going forward, I would want to once again assure the investors that we will continue to bid in Hybrid Annuity model. As I have been maintaining that we will be doing a selective bidding and we will continue with the projects which we believe can give better chances of success as well as better returns. We are looking at Expressways which have just been announced by the government, the first Expressway bid is out, we will monitor the progress on that and based on our judgmental call of how things are going on Expressways, we will decide to enter or refrain from entering.

On the Oil & Gas, we are also looking at discovered small field program which has recently been announced by the Government. We are looking at some prospective blocks which are around our existing blocks to increase the area of operations as well as optimizing our cost of taking the hydrocarbons out in case we get success in our existing fields.

With that, I would request Mr. Akhil Jindal to take you through the financials of the company. Thank you.

Akhil Jindal:

A very good afternoon to everyone. As Sandeep mentioned, I think the highlight of this quarter had been conclusion of the Renewable Energy deal where we have sold the Renewable business to Tata Power and in turn the deal which was signed in the last week of May, early June got concluded and we have now received our most of the money at Welspun Energy level. The other thing that happened is of course the financial closure which Sandeep

mentioned. So I think from both counts, this has been a significant development and that way I think we have set up a benchmark for both financial closure as well as the Tata Power Deal.

Just on the balance sheet, I think there have not been much change between the March and the June number. If you see our net debt number has marginally improved from Rs. -809 Crore to Rs. -834 Crore . So, in effect almost Rs. 25 crores, further the cash level has gone up. These are primarily due to the interest earnings and the earnings during this quarter. Other than that, I do not see any significant change. So this of course does not include the cash to be coming to Welspun Enterprises for the Tata Power deal that has been mentioned earlier. So this is on a like-to-like comparison basis. So this is the only change in the balance sheet majorly and to that extent there is nothing else that I feel is significant. So, I think Sandeep, with all these, we can now open the floor for the questions, anyone has any specific question we would be more than happy to answer.

Moderator: Thank you. We will now begin with the Question-and-Answer Session. We take the first question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Just wanted to know how much will be the cash post tax accruing to Welspun Enterprises from the Tata Deal?

Akhil Jindal: I wish I could have answered this question but the fact is that we are in a last phase of completing some of the projects which are essential part of the Tata Deal and I think by 30th September all these projects would be complete and we would have some sense of the project expenditure incurred on that. While we are talking, there is also a tax calculation going on for the actual money to be received by Welspun Enterprises. I hope I would be able to answer this question probably in another fortnight or so, but unfortunately I do not have answer on this just now.

Parikshit Kandpal: But on the balance sheet, what will be our equity investment and debt which is outstanding for our stake in the project?

Akhil Jindal: We have invested close to Rs. 90 crores as a company. So I can assure you that the money received would be much-much higher than this. There is no debt that we have taken at Welspun Enterprises level for any of the investment which had been done in let us say Welspun Energy or even Welspun Renewable Energy level.

Parikshit Kandpal: But you mentioned that our economic interest is plus 13%. I thought that it got dilute to it over a period of time. So...?

Akhil Jindal: You are right, basically what had happened we had always guided that the economic interest in this will be a single digit number; however, when we concluded the Tata Power deal, at that point of time two of our investors who had a convertible instrument, they chose to exit

as a debt instrument for their own planning. So that effect, after the two large investors who are treated as a debt, our effective shareholding from single digit went up to 13.66%.

Parikshit Kandpal: But does not give you any alpha, I mean, if...

Akhil Jindal: No, it was not any economic gain for us, because those two investors had the convertible instrument, they chose to kind of be treated as a debt for their own planning. That is the reason.

Parikshit Kandpal: Second thing is on the financial closure, so have we received the appointed date or it is still expected by ...?

Sandeep Garg: It is still an expectation, we have completed our CPs, NHAI is still yet to meet their CPs which they expect to meet by 15th of October 2016.

Parikshit Kandpal: What is the percentage of land which has been basically available under this project?

Sandeep Garg: Theoretically, they have about 94% of the land. The challenge is not the land in terms of physical availability of the land. The question here is that there is an NGT order in which case they have to seek an approval of an NGT Committee for any construction in Yamuna flood plain which they are right now seeking from that committee. The report has already been put into them. So we expect the approvals to come within next quarter.

Parikshit Kandpal: So how much will be that stretch as a percentage of total requirement?

Sandeep Garg: It is about 30%.

Parikshit Kandpal: Anyways the project will not proceed without that approval?

Sandeep Garg: That is correct.

Parikshit Kandpal: So when do you expect the resolution in the work to start?

Sandeep Garg: As I said, 15th of October, we are already mobilized on the ground. So we are ready to go. I think another 30-days we should be ...

Parikshit Kandpal: By that time NGT order will come?

Sandeep Garg: It is a committee of an NGT, it does not go to NGT directly, it is a committee which has been formulated by the NGT for these purposes, and we just need to get their approval.

Parikshit Kandpal: Have you appointed the contractors for this project?

- Sandeep Garg:** Yes, we have done it.
- Parikshit Kandpal:** If you can disclose it publicly?
- Sandeep Garg:** I can only tell you that these are reputed contractors for both the bridge as well as the civil work. If that is not of great importance, I would want to refrain from giving the name.
- Parikshit Kandpal:** But just to get the absolute, you are giving comfort on the execution capabilities of these contractors that they will be able to execute it on ground?
- Sandeep Garg:** For sure yes, they are one of the best in class contractors.
- Parikshit Kandpal:** Sir, of late, I know you have been conservative in bidding for HAM Projects and after initial bids and the one we won, so beyond that we have not seen Welspun really participating in other HAM Projects. So what is stopping us, even going for bidding at our rate and even we have not seen that kind of bid from your side that even at our prices we have seen Welspun missing in most of the projects, when do we really see Welspun bidding for some of the projects which are upcoming in the second half because I think earlier last few calls you have been saying that you are looking to add Rs.3,000-4,000 crores worth of project order book, so when do we really see some action on the bidding side from you?
- Sandeep Garg:** First, I would want to correct I do not think I said that we want to build an order book of about Rs. 4,000 crores further. What I said is we will bid for Rs. 5,000 to Rs. 6,000 crores in this financial year and our success rate is going to be about 25% which is what I would maintain. You are right, we have not been bidding. I want to put a factor to why I have not been bidding. If you go by the recently awarded contracts in June and July, they have been ranging on the project estimated cost of NHAI somewhere around plus couple of percentages to minus couple of percentages ranges. That particular range does not justify our entering into the bid fray. We have identified a few projects where we believe that there can be higher margins and for some reasons or the other, those bids have got delayed by NHAI but we have very focused bidding program wherein we have identified at least three bids which we would put in and we expect our success rates to be pretty high.
- Parikshit Kandpal:** So you said that Rs.6,000 crores of bids you would be putting, this will be incremental, right, and you said that 25% success rate, that means around Rs.1250 crores worth of deal basically you are looking, Rs.1500 crores worth of new projects you will be looking to add?
- Sandeep Garg:** Rs. 1200 to 1500 crores. I would want to tell you that in the opening statement when I said that we have done a financial closure for the project. I have put it in perspective that out of the 11 projects that were awarded before March 2016, this is the only project which has seen financial closure at this point in time and we are acutely aware of the issues relating to financial closures. So, we would want to be conservative rather than be very bullish about it.

Parikshit Kandpal: Sir, just on this financial closure, how much would be the total equity which will be coming into this project from your side?

Sandeep Garg: About Rs.100 crores.

Parikshit Kandpal: Will it be upfront or it will be construction-linked?

Sandeep Garg: 50% is upfront and subsequently it is construction-linked.

Parikshit Kandpal: But I would say some of your competitors, more bigger players, so they are getting construction-linked disbursement of equity. So why is it 50% for you?

Sandeep Garg: We are a cash surplus company as you know. It was better for us to not get better terms on how much equity needs to be put upfront. What was more important is to get the interest rates down and the team has done a fantastic job in getting the effective rate of interest down. So that was more important to us and that is what we have chased.

Parikshit Kandpal: But you would have done this deal even at construction-linked equity?

Akhil Jindal: I think in normal circumstances we have seen at least 25% being demanded by lenders in every case. So 25% is a floor in this. The reason that we have agreed for a larger equity is because it would not have made much change from Rs.25 crores to Rs.50 crores, so that would have been a small change. But more importantly, since we were showing a good amount of equity commitment and putting that money upfront and as Sandeep mentioned we could negotiate a good interest rate from the lender and at a same time please understand that there is no corporate guarantee being given by Welspun Enterprises for this transaction. So while all of these have been done at SPV level, we have refrained from giving any other collateral or any other security or any other support from the parental level. So I think it was a good outcome where with Rs.25 crores additional equity that we might just be putting upfront, we could get the terms that we wanted from the lenders.

Parikshit Kandpal: What is the rate we should have closed this deal on?

Akhil Jindal: Roughly around 10.04% or 10.06% something, it is around 10% as an average, and that is for 18 years paper.

Parikshit Kandpal: I am saying during construction, what will be the rate?

Akhil Jindal: Same, this is the rate for the entire period and these are variable rates, suppose tomorrow if interest rate goes down, this may also go down. But in any event, this is the highest rate that we are paying. So once the project gets complete and the COD is achieved, I can guarantee you that we can look for another 50 bps to 100 bps reduction in the interest rate based on the completed projects where the construction risk is also over.

- Parikshit Kandpal:** Lastly, when you complete this project, so are you looking to securitize an exit or we will be basically building it as a portfolio of ...?
- Akhil Jindal:** I think we have been very clear that these are not the projects which would be hold to maturity till 17-years or 18-years. At an appropriate time, we would be looking for churning the equity and redeploying it in the new projects.
- Parikshit Kandpal:** Sir, any tie-ups with any big construction company or any strategic tie-up which you are looking at for getting the support bid for your future bidding?
- Sandeep Garg:** We are tying up with the construction companies which are of substantial pre-qualifications and substantial experience. We are in close contact with them. We should be seeing some of the bids in future on that.
- Parikshit Kandpal:** They will give you the support bid for your HAM projects?
- Sandeep Garg:** That is correct, they will not give us the support but they will give us the binding bids for us to put in the financial bids that we will make. So we will de-risk the company for the construction risk.
- Akhil Jindal:** In fact, it would be like a joint venture.
- Parikshit Kandpal:** But will the EPC revenues be accounted here?
- Sandeep Garg:** They will be a subcontractor to Welspun Enterprises.
- Parikshit Kandpal:** Entire project EPC, margins will be rooted through the WEL?
- Sandeep Garg:** That is correct.
- Parikshit Kandpal:** You will be having 10% plus kind of EBITDA margins on those projects?
- Sandeep Garg:** We surely will strive for that.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Sir, a few questions: First on the Welspun Renewable. If I understand the announced amount of divestment in that company was close to Rs.3600 crores for the equity portion or any adjustment has happened post that?
- Akhil Jindal:** There were number of retentions and there were number of BGs also involved for the projects which were in the last mile of completion. It is difficult for us to precisely say the

number. But, yes, right, it was around Rs. 3600 crores, then the outside investors and everyone was paid, ADB, DEG and GE so you can say almost after all that, the money available at Welspun Energy level was close to Rs. 2900 crores and then of course the expenditures and other things from the Welspun Energy level. So, as I mentioned in the previous part of our discussion, we are in the last phase of completing the project and also doing the exact tax assessment. So in 15 to 20-days time, we should be able to give you the precise number.

Bhavin Chheda: So just to get the close number, so this 2900 crores will be at the Welspun Energy level for equity portion and there is no debt at the Welspun Energy level?

Akhil Jindal: There are outside liability and these are all pre-tax number that I am telling you and outside banks and other institutions to be paid and there are some creditors and other things. So give us some time, 30th September is our closing account for Welspun Energy and based on that we would be able to tell you the exact numbers.

Bhavin Chheda: So just outside liability and all that number and tax would be deducted from Rs.2900 crores and then Welspun Enterprises would hold 13.66% of that?

Akhil Jindal: No, that would be 15% straight then.

Bhavin Chheda: So once everything is over, what you intend to do on the Welspun Energy because the cash will still sit in the subsidiary company?

Akhil Jindal: I can only tell you that there are a lot of advisors on job while we are talking. The structuring has been done to make sure that Welspun Enterprises gets its money at the fastest possible manner.

Bhavin Chheda: Coming back to the Oil & Gas, what is the Welspun Enterprises exposure via equity, loans and advance and other things in the Oil & Gas blocks, I understand you have 35% stake in Adani Welspun Exploration?

Sandeep Garg: Yes, as you know, we a 35% stake in the JV. At this point in time, our investment which is on the books is about Rs.172 crores.

Bhavin Chheda: I think there are some loans and advance also. So including that number would be how much?

Sandeep Garg: After all the write-offs that we have made, this Rs. 172 crores is on the books.

Bhavin Chheda: Any further investments planned in as of now?

Sandeep Garg: Yes, about Rs.150-odd crores from the Welspun Enterprise side.

- Bhavin Chheda:** The six BOT projects right now what we are having, so what is the EBITDA and cash flow run rate there and outstanding debt number there?
- Sandeep Garg:** We have approximately Rs.10 crores of revenue in the last quarter from the projects that we are talking about. The external debt is in the ranges of Rs.80 crores.
- Bhavin Chheda:** This Dewas Bhopal divestment what 37% we sold. That entire money is received back, so our cash figures includes that entire divested money, right, Rs.834 crores?
- Sandeep Garg:** Yes, the 37% that we divested, cash figures include that number.
- Moderator:** Thank you. The next question is from the line of Srivastav Ramchandran. Please go ahead.
- Srivatsav Ramchandran:** Just wanted to know what would be the IRR you are looking at the HAM projects what kind of equity IRR we are factoring in and also what will be the L2 bid on the project, and the project that you did not win, is there any sense you could give?
- Sandeep Garg:** The project that we bid, one project that we won and we bid another project that we did not win. On the project that we did not win we were out of the nine bidders, we were the L8 bidder. So, we were H2 bidder in that case and we have put bids exactly on the same principle as we had bid for the Delhi Meerut project. So our principles of bidding did not change; however, since there was very high competition in that bid, we became L8 bidder out of the nine bidders that participated in that bid. As I have been maintaining that we are targeting equity IRRs of upward of high teens, so that is what our target is for all the bids that we put in.
- Srivatsav Ramchandran:** Any insights you could give us on what the L2 bid on the Delhi-Meerut Highway which you won on?
- Sandeep Garg:** Delhi-Meerut Highway bid that we had put in, we were L1 bidders at 841.5 Crores for an 8.71 Kms Road and we were about 26% above the estimate of the client whereas there was another one more bidder which was Ashoka Buildcon and he was at about Rs.1300 crores and he was 96% over the BPC.
- Srivatsav Ramchandran:** In terms of an execution timeline, you said that you look at 2.5 to 3-years from October '15 we should be kind of able to kick off, wanted to know is there any risk that could come from mainly utility line change and other things which the land acquisition might happen but some of these smaller nitty-gritty is given, you would be heading closer and closer towards or you might face some challenges?
- Sandeep Garg:** As far as the utility shifting is concerned, the utility shifting contract for the most important utility is already given directly by NHA which is pass-through for us which we are not participating. As far as the minor utilities are concerned, all the estimates have been with

NHAI and they are in the process of approval. We do not anticipate any of these utility shifting issues hampering progress; whilst the appointed date has not taken place, we have already started constructing the utility duct for shifting of these utilities. So we do not anticipate that there will be a delay because of the utility. As regards changes, it is an urban area construction. There surely will be certain changes, certain changes are envisaged at this point in time which are under discussions with the NHAI and the estimates thereof are being formalized.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Just wanted to crosscheck this balance money from IDFC for the stake sale, has it come in the Dewas Project?

Sandeep Garg: No, the 13% money is yet not come.

Parikshit Kandpal: Is there any timelines like within that period it should come?

Sandeep Garg: We have a contract with IDFC to absorb this 13% from the closure date of the transaction plus two years and the cost of acquisition will go up by 12% p.a. depending upon when the approvals come.

Parikshit Kandpal: Second thing is I just wanted to check that, do we have any crossholdings with Welspun India?

Akhil Jindal: We have no crossholdings at any of our group company level.

Moderator: Thank you. The next question is from the line of ASN Raju from Network Stock Broking. Please go ahead.

ASN Raju: Sir, I am very much feared because of government order, HCC got around Rs.2,000 crores of cash, Punj Lloyd is getting Rs.1,000-odd and Patel is getting Rs.1,500 crores of arbitration money. Once the clouds in the construction business are going to clear, the competition will gear up like anything sir. So this is the last time to bid reasonably aggressively to be in the business?

Sandeep Garg: Mr. Raju, you are right that there are certain companies which will get some money against the bank guarantee or against the recent decision of the government and they will be able to bear some debt against that receivable. So that is a reality and we are very well aware of it. However, to put it in the perspective, as I have been saying that these companies which you are talking about are primarily in construction space, they are sub-contractors to us rather than the developers. So I am trying to position the company as a developer company and hence to me I would see it as positive news for me because I will have a larger chunk of

reliable contractors who have the liquidity to try and complete the project on time rather than looking at otherwise.

ASN Raju: My other question is from last nine months we had participated only in one bid, in that we were H2, so recently Ashoka Buildcon and Dilip Buildcon and IRB are getting annuity projects in Punjab I think and with the slow tendering progress on bidding, how can we serve this 170 crore of equity?

Sandeep Garg: Let me put it in perspective; there are two aspects to the business here; first is do we win the contracts and how do we convert them into executable contracts. So lot of people have won contracts and prior to me as well as post me, none of them are able to convert that order into an executable contract because the financial closures are not taking place. It is one thing to get the contract but it is absolutely another one to make an executable and get the revenue thereof. Second issue that I would want to put across to you is that we would want to stay at the price points that we desire to be in and I have been maintaining Mr. Raju very clearly that I will not spray and pray, I will be a very targeted bidder and we have identified the bids that we will put in this financial year, we would have put those bids if NHAJ were able to call on those bids..

ASN Raju: What is the size sir?

Sandeep Garg: They are all in 1,000 crores plus. So we are not targeting anything in Rs.300 crores.

ASN Raju: Rs.170 crores is Welspun Enterprises equity. Now you have to earn something for this equity no. So with this high experience, everything if we scare, how can we support this Rs.170 crores equity, Rs.10 or 15 earning should be there per equity no?

Sandeep Garg: Mr. Raju, I have been maintaining that we will target a growth rate of about 25% to 30%. So we are expecting awards of about Rs.1200 to Rs.1500 crores this year and I think there is a rate of growth which we can survive on a continual basis rather than have situations where we bite into something which we cannot chew. So that way I can...

ASN Raju: From last six years, we are cleaning the balance sheet and we are closing all our existing work, there are no reasonable earnings. If we grow 25% at this level, it is very minute I think, probably Re.1 or Rs.0.50 earnings were under equity.

Sandeep Garg: I tell you Mr. Raju that your suggestion is to try and bid more projects, it is well considered, Mr. Raju and I assure you that we are looking in that direction.

ASN Raju: What is your earnings guidance for the next two years?

Sandeep Garg: Mr. Raju, you are a long-term investor, you know that we do not give any guidance on the numbers. So I would want to refrain from answering this question.

ASN Raju: Yes-yes, but there should be some limitations for everything no sir, where in this period every construction company or every financial company is in a very big balance sheet, they are having good cash, this time we have to do some aggressive bidding so that it will give good results, once the market is geared up and every company is in a good shape, they will bid aggressively no sir, they would not return any construction business, that is what I understand?

Sandeep Garg: I tell you, Mr. Raju, your suggestion is well noted that we need to get aggressive in our bidding, we will take into consideration. Thank you.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Sandeep Garg: Thanks everyone who has joined us in this conference call and we appreciate your support for the company and we assure you, we will continue to create value for the stakeholders going forward. We look forward to your supporting the company in future as well.

Moderator: Thank you. On behalf of Welspun Enterprises Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.