“Welspun Enterprises Limited Q1 FY2019 Results Conference Call”

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Moderator: Good day ladies and gentlemen and welcome to the Q1 FY2019 earnings conference call of Welspun Enterprises Limited 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Maulik Shah from Dolat Capital. Thank you and over to you Mr. Shah!

Maulik Shah: Thank you. I would like to welcome you all for the Q1 FY2019 results and the business outlook call of Welspun Enterprises. We thank the management for giving us the opportunity to host the call. From the management, we have Mr. Sandeep Garg, the MD, Mr. Akhil Jindal, the Group CFO and the Head Strategy and Mr. Shriniwas Kargutkar, the CFO of the company. Without wasting much time, I would now hand over the floor to Mr. Garg for their opening remarks and then we can have the Q&A.

Sandeep Garg: Thank you. Good afternoon. Welcome to the Q1 FY2019 investor call. I would want to give you an update on the current business situation. The current portfolio of hybrid annuity model projects consisting of six projects is amounting to about Rs.7000 Crores. The current orderbook stands at about Rs.5600 Crores, which includes escalation and change of scopes. We are going to the individual project update. We have completed the Delhi-Meerut package one in a record time of 19 months as against the scheduled time available of 30 months. The project was inaugurated by the Honourable Prime Minster of India and we already have received the provisional certificate of commercial operation with effect from June 20, 2018. This early completion entitles us to a bonus for the period of 11 months and we are proud to be the first company to complete a project of hybrid annuity model within the country in a record time. Also we have been able to achieve appointed date for two of the projects, which are namely Gagalheri-Saharanpur-Yamunanagar or as we call GSY and Chutmalpur-Ganeshpur and Roorkee-Chutmalpur-Gagalheri normally called CGRG. The appointed date for GSY project was on January 26, 2018 and by the end of June 2018 we have achieved more than 20% of the physical progress, so the project is progressing well. Operationally, it is doing better than what the scheduled completion is. The first milestone of the 20% payment milestone was achieved 71 days in advance of the contractual schedule. We expect the progress to improve further post the monsoon completion.

As far as the CGRG project is concerned, the project achieved its appointed date on February 28, 2018 and it is showing at the site. We have achieved 15% physical progress at the end of June 2018 well ahead of the contractual schedule. There are two other projects, which we have in the orderbook, one is Aunta-Samaria. This project is primarily a bridge project with about eight kilometers of road. We have achieved the financial closure for the project and we are awaiting the appointed date. We expect the appointed date to take place within the coming month that is in Q2 FY2019. We have already finalized all our major subcontracts for road as well as for the bridge and we are fully mobilized at site and we have started the developmental work at site. We expect to give a push to this project after the appointed date is achieved within this quarter.

The other project that I would want to brief you about the hybrid annuity model project that we have is Chikhali-Tarsod in Maharashtra. We have completed the acquisition of the stake of 49% from Vishvaraj Group in January 2018. We have also obtained the financial closure for the project and we expect the appointed date for the project to take place in Q2 of FY2019 we expect it to take place somewhere in the middle of August 2018. The EPC contract, the subcontractors have been finalized and the site is mobilized and the developmental work has been started. We also awarded the single largest project of the Company Sattanathapuram-Nagapattinam in Tamil Nadu on July 5, 2018. At the HAM level we did bid at Rs.2004 Crores and we are currently awaiting its signing of the concession agreement, which should take place by the middle of August 2018 and this project should start operating on the ground level in Q4 of 2018. That is as far as the road hybrid annuity model is concerned. In addition to that, there is one significant project that we have in the infra space, which is called Dewas Water. We received the appointed date for this particular project the restructured Dewas Water project on May 7, 2018 and we have already started the execution. At the end of June 2018, the progress was somewhere around 10% on this particular project.

Out of the whole set of projects that we have both in hybrid annuity and the Dewas Water other than the project, which the LoA was issued on July 5, 2018 are financially closed as well as the EPC contracts finalized with the subcontractors and hence the clear visibility established for the completion of the projects.

Going on to the oil and gas business, which is a JV between the Welspun Enterprises and Adani Enterprises. There are five blocks in totality, which are two in Kutch, one in Mumbai, one in Palej, which is on hold and one is DSF block offshore close to the Mumbai block. Other than the Mumbai block all blocks are under appraisal program. The two Kutch blocks, currently a deeper section is being drilled in one of the blocks and we expect the results to be out by October 2018 of the current appraisal program of Kutch one and Kutch two blocks. In terms of the block in Mumbai, which is MB-OSN-2005/2 we are 100% owner. I would want to tell you that the Kutch blocks the operator is ONGC and in the Kutch block one we are holding a PI of 25%, participating interest is 25% and on the Kutch block two our participating interest is 30%. However on the Mumbai block our participating interest is 100% and we are awaiting government's approval to enter into phase two of the exploration program. In terms of the latest block that we acquired the B-9, which is adjoining block to the Mumbai block it is a discovered field and hence it straightaway will go for a field development. We are the expecting the field development to proceed as per plan and the first gas to be out in the year 2021-2022.

The main stay of the Company is right now the hybrid annuity road projects and we are currently focusing more on national highway. The current orderbook outlook is that there are about 40 HAM projects announced by NHAI, which should be bidded out in this quarter and the next quarter totaling to about Rs.40,000 Crores. We plan to bid selectively in many of these projects amounting to may be about Rs.30,000 Crores and we expect the win bid ratio to be in the same ranges in the past as we have had, so as far as the outlook is concerned, the business has a substantial orderbook and has a clear visibility for the turnover for the next two years. The pipeline of the order is strong and we should have wins much more going forward and the business is in a situation where the outcomes can be reasonably well established ahead of time, so with this I would want to hand over this conference to Mr. Akhil Jindal who will take you forward with the financial highlights.

Akhil Jindal: Thank you Sandeep. Good afternoon friends. As far as the financial numbers for the Q1 is concerned, I am sure you would have seen it in the various releases we uploaded on the website as well as on the exchanges, but just for a quick update our revenue for this year has been very much in line with what we have guided the market in last conference call, that means this year we should see twice of what we have been doing up till the last year and which is reflected in the numbers that we have declared today, so the topline has grown by 73% from Rs.200 odd Crores to Rs.347 Crores in this Q1 FY2019. The reported EBITDA has also gone up by 25% from 36.9 crores to 46.3crores. Out of this reported EBITDA of 46.3 crores in this quarter, operating EBITDA is 37.6 crores, which is 120% higher than what was there last year same quarter. The PAT is Rs.27 Crores, which is up 28% and the cash PAT is Rs.32.3 Crores, which is up 14% corresponding to the last year same quarter.

As far as the balance sheet is concerned, we have tried to present some of the key numbers and I am just saying these are unaudited, management classification of the balance sheet items. On the standalone balance sheet side, our net worth has increased from Rs. 1,457 crores as on March 31, 2018 to Rs. 1489 crores as on June 30, 2018. The gross debt has also come down from Rs. 66.4 Crores to Rs. 50.6 Crores. The cash and cash equivalents for the quarter ending June is Rs. 487 crores plus there is Rs. 219 Crores of the temporary funding that we have done to the subsidiary, which otherwise we could have drawn by way of a debt at the subsidiary level and this money could have been repatriated back at the parental level, so this in a way, is free cash available to us on demand, as and when we want. This has been done to minimize the interest cost at the SPV level and in turn make our treasury operations more effective, so together if I add up both of them the total cash and cash equivalents with the Company, which is available for deployment is around Rs.706 Crores. The long term liability has remained more or less the same from Rs.30.3 Crores to Rs.31.1 Crores as on June 30, 2018. The net current asset, which is what I mentioned as the additional receivable for the additional funds deployed in the SPV or subsidiary have gone up from Rs.105 Crores to Rs.277 Crores, which can be easily brought down by Rs.219 Crores as and when we want and the other long term investment have gone up from Rs.726 Crores to Rs.800 Crores, so this is in short of the synopsis in terms of the financial numbers.

Let me take a minute in explaining the operating EBITDA also for the people who have seen the reported numbers on websites and exchanges. Just for their reconciliation, it would help to understand how the operating EBITDA has been arrived, so we have two adjustments in the operating income, which are important to understand. One is purely Ind-AS calculation, which is Rs.4.22 Crores, which was there in the other income, which is notional under Ind-AS and there has been a corresponding cost of the same amount Rs.4.22 Crores, which is in other expense. Since both of them are notional for the purpose of operating EBITDA, it has been excluded and also there is an another adjustment of a noncash item of Rs.4.82 Crores, which is there on account of ESOP, so if I take off both these items and add back in the EBITDA our operating EBITDA stands at Rs.37.6 Crores, which is 10.8% at the Company level. Now obviously all our projects have not yet started. We mentioned that in two of the projects we are just waiting for the appointed date, which will happen in Q2 and the other project is also likely to start construction in Q4, so thereby the operational operating EBITDA, which is 10.8% is certainly likely to go up significantly and substantially as we go along. There is another thing that I would like to mention is what we do on the SPV side to have enough liquidity on the SPV side. We have cash reserves being created at the SPV level, which is also available to us as an operating income, so as and when the cash position in these companies are comfortable they can also be taken an operating income, so in a way at a company level we have visibility of let us say anything between 12% to 15% at operating EBITDA level and to that extent the Company can be viewed accordingly. With this I think the initial financial commentary that I had I can pass it on this floor open for questions. If you have any specific questions, both I and Sandeep and the team will be happy to address that. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Dhrumil Shah from Crescita Investment. Please go ahead.

Dhrumil Shah: Good afternoon Sir. Sir I have some basic questions. Can you tell me the size of the Dewas Water project in Crores what is the bid size?

Sandeep Garg: The total project as an EPC/new project is about Rs.70 Crores. There is an old project, which is getting transferred along with it, so the total project cost in terms of the value that it will be about Rs.145 Crores in totality.

Dhrumil Shah: Can you tell me the completion dates for the GSY project and the CGRG project?

Sandeep Garg: The projects are scheduled for 24 months, as far as the projects are concerned they should be completed as per the concession agreement by January 25, 2020 is the GSY and the CGRG is February 27, 2020 those are the scheduled completion, but we are way ahead of the target schedule.

Dhrumil Shah: If you could tell me the early bonus amount that you would get for the Delhi-Meerut expressway if you have any fair idea about it?

Sandeep Garg: It should be closed to Rs.28 Crores in totality out of which 50% will be shared with the subcontractor.

Dhrumil Shah: As we are maintaining the Rs.2000 Crores topline guidance for this year can you tell me what would be the EBITDA margin for the whole year?

Sandeep Garg: As Akhil mentioned in his address we expect the EBITDA margins as we are talking about in the ranges of 12% plus.

Dhrumil Shah: For the first quarter you have done about 8.22%, so it will scale up in the second to fourth quarter, is that a fair understanding?

Akhil Jindal: That is what I am saying this 8.2% does not account for two extraordinary items that I mentioned, which are notional items, if I add to it those two items our operating margin is 10.8% in this quarter.

Dhrumil Shah: Fine Sir. Thank you so much.

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

Basant Patil: Congratulations on the good set of numbers. Just a few understandings largely in the oil and gas space, so what is your vision Sir actually down the line four, five years, what kind of investments you are planning to do, even though we have strong cash and cash equivalents, any strong capex plans expected going ahead apart from the current whatever we have blocks, so just wanted to get broader view in this segment?

Shriniwas Kargutkar: As far as we are concerned the commitment to this space is recommended at about Rs.175 to Rs.200 Crores, we are not likely to spend anything beyond that going forward. In terms of our strategy we do not see in a foreseeable future that we associated with this line for a very long time, we would want to monetize these assets as and when the appraisal programs are over and the results can be settled back**.**

Basant Patil: So the revenues would be expected in the year of FY2020, is that a fair understanding, so whatever we can expect the anticipation kind of expected revenues?

Akhil Jindal: The first revenue can be in FY2020 from the B-9 block in the far end of FY2020 we expect.

Basant Patil: Can you share any kind of the number, what kind of the revenue expectation beyond 2020-2021, after 2020, it would be in the last quarter of 2020, so in 2021 the actual you can see the full year kind of the revenue slow?

Sandeep Garg: This B-9 is a small discovered field block and the way the government is planned we expect about the revenues to be in these ranges of about. I am not too very sure about the numbers after this session I will come back to you.

Basant Patil: How would you manage the volatility include particularly, is that linked to our margins would that be a volatility that could be a risk in this segment?

Sandeep Garg: It is a commodity business, but however the business case has been worked out on the rock bottom prices of about $55 a barrel, all our testing is done at the lowest average cost of the oil, we are not counting when we are doing the economics upside as a volatility or the change in crude price to explain.

Basant Patil: Sir just one last question, so any management thought is there to reward in the form of buyback, any thought, even though we are sitting on this strong cash and cash equivalents, any thought kind of the reward would be expected in near-term for the investment?

Sandeep Garg: As we speak we can foresee as I said the hybrid annuity model of road project is doing exceptionally well, we are sitting at an orderbook of about Rs.5600 Crores and we like the orders of inflow of about Rs.5000 Crores, which gives us an equity investment opportunity of almost like Rs.1000 Crores going forward, so we believe that the use of money is available for us and hence there is no reason for us to think about that once again.

Basant Patil: Fine Sir. Thanks a lot and all the best Sir.

Moderator: Thank you. The next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: Congratulations on good numbers. Would you be able to share in the Q1 have we recorded any of the bonus from Delhi-Meerut project?

Sandeep Garg: The Delhi-Meerut project bonus has already been accounted for because the project has already achieved the PCOD and we are obligated to do so, which was done in the last financial year as soon as the project was.

Mithun Soni: So nothing has come in this quarter Sir?

Sandeep Garg: Nothing in this quarter, it was only accounted for last year.

Mithun Soni: My second question is with respect to currently given that you said that we are already in the pipeline to build a lot of projects, just wanted to understand for the projects what we are currently executing, what would be the site level margins for us right now?

Sandeep Garg: The site level margins are in the ranges of around 15% to 18% on the projects that we currently execute.

Mithun Soni: Is it fair to say that the differential between the site level margin and the operating margin of 10.8% is a fixed cost of the overheads of the head office and everything and hence the margins will improve to 12% just because the scale doubles up?

Sandeep Garg: That is correct. As the apportionment of the overheads goes on to a larger base, the EBITDA margins will show upside trend.

Mithun Soni: For the incremental 40 projects, which you are seeing in the pipeline where we are looking to bid you feel that the margins what we are doing today on our existing projects we will be able to achieve the same level of margins, what I am trying to say is the competitive environment a little bit higher or is it reasonable?

Sandeep Garg: I think in terms of the competitive environment if you see the weaker balance sheet players are finding it difficult to do the financial closures of the existing projects, hence I believe that the competitive environment should ease off rather than become more intense and nonetheless we are a very, very clearly disciplined bidder, we did not lower our profit margin expectation just to win a project, so we believe that there is enough work in the market, we are currently only focusing NHAI there state highways, there is enough work in the space, which will allow us to get the returns that we are expecting and under no circumstances are we willing to make a compromise on the returns that we expect.

Mithun Soni: This financial year what sort of order inflow you are targeting Sir?

Sandeep Garg: We already have Rs.2000 Crores of an order this time as the project and we expect additional Rs.5000 Crores approximately to come.

Mithun Soni: Rs.5000 Crores is over and above Rs.2000?

Sandeep Garg: That is correct.

Mithun Soni: Fair Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Jigar Mistry from Buoyant Capital. Please go ahead.

Jigar Mistry: Thank you for taking my question. I actually have two questions, one there is a lot of report that the public sector banks are not really going ahead with the guarantees that are required, so how robust is the acquisition slate with regard to the projects that are already awarded that is number one and number two you mentioned that the incentive was recorded that does not get accounted into the standalone entity if I understand right, just a clarification would be helpful?

Sandeep Garg: Two things, as far as the challenge of bank guarantees and the challenge of financial closures are concerned, all our projects, which are in hand have submitted the requisite bank guarantees and are financially closed other than the project that we won on June 5, 2018, which we believe we will be able to do the financial closures well ahead of time that we are obligated to. We do not see the same challenge as some of the players are seeing because of the historical reasons or weaker balance sheet. We also are disciplined that we do not take substantial orders when our financial closures for the ongoing or in hand projects has not been done, so that discipline has been maintained in the Company, so we are not really concerned about the nationalized banks not issuing the bank guarantees that challenge has not been hitting us as of now.

Jigar Mistry: My question was more with respect to competition where financial closure has not happened are more projects coming into the acquisition slate vis-à-vis say six months back?

Sandeep Garg: As we speak yes there are projects, which are in the market for reasons that they are not able to do a financial closure and however as Company we do not take projects, which are available in the market until and unless they meet our threshold return requirements and hence as we are a selective bidder we are also a selective buyer.

Jigar Mistry: Perfect and with respect to the incentive that gets recorded at the SPV right?

Sandeep Garg: The incentive as the EPC contracts were structured that it was a pass through as far as the SPV is concerned to the EPC so this was a construction phase incentive, the incentive for the SPV is the reduced cost of IDC and the early recognition of the annuity payment, so the return, which was due to the EPC contractor actually **pass through to** the EPC contractor.

Jigar Mistry: Alright. Thank you.

Moderator: Thank you. The next question is from the line of R Narayan from NS Advisors. Please go ahead.

R Narayan: Thanks for this opportunity and congratulations for a good set of numbers. My question is more with regards to the bids what is the kind of project IRR range that we typically select on and do we see that kind of coming down with more and more players competitively bidding under the HAM model?

Sandeep Garg: Our target IRRs in the mid teens range around, hovering around 15% or there around depending on target location, duration, etc., etc., mid teens is the guidance that we have for the IRRs. As far as the competitive environment is concerned I do not see it to be very intense and whatever was the intense competitive environment during March 2018 bid process I think the realization donning upon the financial closure challenges, a lot of players are interested in doing the financial closure before going into the bid market once again, so I see that the competitive environment from the bid side would ease off going forward.

R Narayan: Another question was on the Delhi-Meerut expressway project, which was completed, when do you expect to monetize it?

Akhil Jindal: The way the NHAI guidelines works is 100% sale is possible after the two years of COD and 49% is possible even today much before the COD during construction itself, so we are evaluating various options in terms of the monetization, but not greater than two years that this monetization will happen and I think one more additional news that I would like to share which, I think I missed in my initial commentary after the project has been complete it becomes like NHAI risk and accordingly we have got a provisional rating done for Delhi-Meerut, which has achieved PCOD and after the PCOD done and NHAI credit phase we managed to get AAA (SO) rating for Delhi-Meerut, so the cost of financing or even top-up debt and other things becomes far more easier, which can meet any cash flow requirement, so to that extent even if the monetization really takes place full after two years, a good amount of equity can be returned by way of top-up debt based on AAA (SO) rating that we have achieved in Delhi-Meerut, similar thing would happen in other projects as well.

R Narayan: Some sort of issues in the working capital or the proceeds, which might get struck from the government side considering that the upcoming year do we envisage some concerns on that?

Akhil Jindal: So far we have not seen any delays in any of our payments from the government and to that extent I think even the Company is well geared. We have enough cash in our system, so I think as far as HAM is concerned, our experience is NHAI, the government regulatory agency has been very, very positive and to that extent I think we are not anticipating too much of delays, all our payments are being received in time well within stipulated schedule, so accordingly I feel not much will change next year also, so Sandeep you want to add on to?

Sandeep Garg: Adding onto what Akhil is saying all our payments till now have been ahead of time rather than on time so we believe that as long as the contractor is performing the NHAI is willing to pay and support the completion of the project.

R Narayan: O&M expenses, given that most of the work is subcontracted I heard somewhere that the Delhi-Meerut expressway had some repair related issues, so just wanted to understand in such situations who is ultimately responsible for the repair works?

Sandeep Garg: Good that you have got up this point of the repair. I think the issue has to be seen in the correct perspective. The project was completed and another agency managing utility decided to replace the pipes in the region, which the approval had been taken by the agency from NHAI way before the project was supposed to be completed. Now they went ahead and dug up the side of the roads, since it was a period of monsoon water accumulation started, which resulted in some damages to the roads. The issue is that it was because of an uncoordinated effort by another governmental agency, a work they were supposed to do before the completion of the project they just chose to do after the completion of the project and those repairs are being carried out, I do not think that is of a substantive nature in terms of what we have done and what we need to do. The project is under defect liability period of the EPC contractor or the subcontractors to repair everything up to 24 months post the completion, so in terms of SPV and in terms of Welspun Enterprises we are protected and we will make sure that all teething issues that we may see are appropriately addressed before the defect liability period is over and it is not at our cost is that the cost of contractor executing the work. So I think the takeaway is that the other agencies who are in urban infrastructure space need to deliver they need to do certain things alongside the project they need to do before the project gets completed or else they could lead to certain challenges on the assets that are being built up.

R Narayan: Just on the defect liability period, is there some amount held by form of some retention for the subcontractors?

Akhil Jindal: Yes substantial amounts are retained as the defect liability period until. As soon as the defect liability period is not over the money is not released.

R Narayan: Thank you so much. That is it from my side and all the best for the future.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: My first question is on clarification bonus you mentioned was accounted in the first quarter?

Akhil Jindal: No, it was accounted in the March 2018 results and it is not part of the Q1 results.

Giriraj Daga: And it is not part of standalone number also, you are mentioning that and it is part of standalone numbers?

Akhil Jindal: It is part of standalone numbers of the last financial year and it is not part of financials of this year financial.

Giriraj Daga: Last year we had of Rs.44 Crores of segment EBIT and infrastructure that included Rs.14 Crores of the bonus number?

Akhil Jindal: That is correct.

Giriraj Daga: My second point is that what is the total equity deployment we are looking this year in HAM projects?

Sandeep Garg: The total equity commitment that we have on the HAM is of a magnitude of around 867 crores and these are the various projects that we have gone so far and we have already deployed almost Rs.440 Crores while we are talking, so there is an additional requirement of almost Rs.428 Crores to be deployed from here on. Based on the construction schedule that we have just shared with you we expect around Rs.300 Crores odd to be invested further during this year and balance Rs.120 Crores odd will be invested in next year.

Giriraj Daga: What is Oil & Gas investment in this year plan so far?

Sandeep Garg: We have planned for around Rs.110 Crores of total investment in this year out of which nearly Rs.15 Crores is already invested in Q1, so there might be a balanced requirement of Rs.95 Crores in the balance nine months of this year.

Giriraj Daga: My next question related to the reporting like we report unallocated cost, which I primarily assume is a corporate overhead cost, but the number is a bit large Rs.14 Crores, last quarter there was some reporting where we had shown that number as Rs.2.7 Crores, but again we have raised that number to about Rs.14.5 Crores this year in this price list, so about Rs.60 Crores is the total overhead cost?

Sandeep Garg: Just give me one second, we are just pulling out the number and trying to understand what your question is.

Akhil Jindal: Can you just repeat your question please?

Giriraj Daga: Last quarter fourth quarter we had unallocated cost of Rs.2.7 Crores, we had shown the time of March quarter numbers.

Sandeep Garg: From where you have taken this Rs.2.7 Crores?

Giriraj Daga: Last fourth quarter release, which has been restated to this year at about Rs.14.6 Crores in the March quarter.

Sandeep Garg: We will just look into that. I am comparing the last year versus this year, so the numbers that we have shared with you in our release, which is a part of 41, it says that Rs.14.64 Crores was as on March 31, 2018, which is Rs.14.25 Crores, so nearly comparable on a back to back basis. From where this Rs.2 Crores number that you are seeing we will just understand and give you reply offline.

Giriraj Daga: Second, is that completely one off there is overhead cost we will continue be caring with normal inflation?

Akhil Jindal: Rs.14 Crores run rate for a quarter is what are normal overheads would be and this is what we will expect with normal inflation to continue going forward.

Giriraj Daga: My last question on the margin front, when we talk about 15% to 18% margin on a project specific basis, it appear to be a bit higher if you look at the reported numbers because let me also see that last 15 months we had done total revenue of about Rs.1400 Crores overall put together, which include FY2018 numbers and the first quarter numbers while total at EBIT level we have done about Rs.165 Crores, so it is roughly coming at about 12% kind of a margin number on a specific I am talking about segment wise excluding the overhead cost?

Akhil Jindal: You are right to the extent that since the operations are in a ramp up pace and the initial bridge versus the bids that we have subsequently made are different, so you would see certain ramp up taking place going forward, so there are certain costs as a part of the historical cost that are booked to the infra segment, which were like low cost, low return businesses like the Mohali project, the BHEL road. The historical revenue is not only HAM EPC revenue it is also revenue consisting from past historical projects that we were completing, so that is bringing down the percentage if you look at it from a historical basis. However since the future order is purely a HAM order dominated, so the stable numbers will look much better going forward.

Giriraj Daga: If you have the consolidated debt number for the Q1?

Akhil Jindal: Sir I mentioned to you the gross debt at a Welspun Enterprises level is Rs.50.6 Crores.

Giriraj Daga: Correct, SPV with that?

Akhil Jindal: SPV Rs.376 Crores total.

Giriraj Daga: Thank you and all the best.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: I believe our HAM sector is facing some sort of headwinds with delayed closures and financial closures, so basically are we also facing some delay in financial closures due to the difficulty being faced by the public sector banks and are we on the lookout for some Delhi lucrative opportunities in the secondary sale route as we can see the delay there even for example Aunta-Simaria route we were selected long time that but not much progress has happened, so are we going in for the secondary sale route going in from the crisis project to lucrative return for us?

Sandeep Garg: I think you have asked three questions and we will try to answer all of them one by one. Firstly whether we are facing any challenge in terms of the financial closure that is your question number one. Out of five projects that are currently being pursued by the Company four of them have already achieved financial closure and significant amount of work has been done in each one of them, Delhi-Meerut is of course completed project, the rest three are all in advanced stage financial closure and everything has been done. Another four projects are there in that zone and in that every project we have achieved financial closure for stipulated time of 45 days to 60 days at most including the documentation, so we have faced no challenge. As far as the large project is concerned, which is Tamil Nadu project, which has recently been won, we have got LoI only around 10 days back and we are very hopeful that the base of discussion that we are having with the lenders today. This should also see the financial closure within next 45 to 60 days. So as far as Welspun projects are concerned, there are sort of well bidded projects and we have not seen any issue in terms of the financial closure. I think the second question was in terms of that whether we would be looking at projects to acquire, so I think yes clearly the company strategy has been both build as well as buy strategy and in that sense wherever the projects are good and it meets our own threshold, IRR returns and everything. We are very confident of achieving financial closure if that is the only impeding factor for those projects to see light of the day and to that extent six projects that the Company has you can see it is a mix of three directly one and three being acquired through secondary route. I think we will continue that strategy as far as the project is concerned.

Sandeep Garg: Aunta-Simaria project you are right we won at a long time back and we did the financial closure substantially well in time. The challenge is not about anything else, but the client being able to make their own CP, which one of them includes 80% of the land being available. We as a company have taken a view until and unless we can see the project being closed once we have done with the work of the land that we are available and the project closure cannot take place officially on the contract. We do not want to plough in money and take an appointed date, so hence we have resisted the temptation to start the work and take the appointed date. However, NHAI has now currently come to a position that they can give us the appointed date, they are willing to appoint the IIT as the independent engineer for that project. They are willing to take a position on the land although for Aunta-Simaria land is not such a critical issue because it is only 8 kilometer four lane road, the bridge is what is taking the most of the time, so we have been a discipline player and when to take the appointed date and when not to take the appointed date because that could put up the business at a risk that we deploy the funds and we cannot get the completion certificates from the NHAI. So that discipline is part of our culture and this is a part of our processes. So we will see such delays in case NHAI is not in a position to meet the CP. I hope I have answered your question.

G Vivek: Yes, but is the assembling block now removed for the Aunta-Simaria project or it is still there?

Akhil Jindal: It is removed that is why I said we expect the appointed date to be taken place. NHAI has taken a view that they will appoint one of the IITs as independent engineer because independent engineer is a necessity for us to proceed the job.

G Vivek: Have you finalized our subcontractor in Tamil Nadu project?

Akhil Jindal: No, we have not as yet. So we would finalize in next 60 days.

G Vivek: Any financial implication for us due to the quality issue that press was reporting on the newly inaugurated Delhi-Meerut Expressway?

Akhil Jindal: As I explained in my earlier address, there are no quality issues per se otherwise we would not have got the provisional completion certificate. The issue was of another agency doing some work and which is causing flooding of the road and causing certain small section of the road to see some distress. This is more of a coordination issue and this is more of a urban infrastructure paying issue wherein one agency does something, which the other agencies has no clue as to what he can do or what he cannot do. That is part of the urban infrastructure play in the country, we will have to be mindful of it, we will have to continue to deal with it as and when it comes.

G Vivek: Last question is about the monetization hope for our Oil & Gas foray, how long will it takes and are there some headwinds from ONGC not cooperating with their assets going out to private parties as per the report in a section of press?

Akhil Jindal: We do not see any resistance from ONGC in terms of letting us do what we need to do and in terms of the first monetization as I said the B-9 is the first asset that we will get monetize in terms of showing up the revenue and as soon as the appraisal programs of the other projects can ascertain the results wherever we are not 100% owners or the participating interests are not 100% we would look for the opportunity of whether to participate in the development program or to exit at a particular price, so those options will be evaluated as and when the appraisal program establishes the commercial viability of the results.

G Vivek: And what is the production state of these results Sir, any hope for the production also to coming up?

Akhil Jindal: The production can only be planned after the appraisal program is done and the reserves are certified, so I think in early stage right now, it will be too early for me to say what the production stage will be, when the production will come out, when the appraisal program itself is not complete.

G Vivek: Thanks a lot.

Moderator: Thank you. The next question is from the line of Yogen Lavari an Individual Investor. Please go ahead.

Yogen Lavari: Thank you for taking my question. Sir last one there was an article published in Business Standard, which said that Welspun Enterprises to look at 250 billion business in the next two years, currently we have around 70 billion orderbook, so do we plan to take it triple in the next two years, is it doable?

Akhil Jindal: Yes, so the way it is right now we have about Rs.5600 Crores of an orderbook and the way it was at the HAM level and which is Rs.7000 Crores is our current portfolio. We expect an additional Rs.5000 Crores this year, so which will take the portfolio level, that is how portfolio level issue, which will take it us to about Rs.12000 Crores plus and the year thereafter we expect our water segment, which we are currently exploring possibilities also start contributing to our orderbook growth and taking about Rs.8000 Crores in the orderbook for road and about Rs.4000 Crores for the water business, we should be close to the number that you saw in the Business Standard.

Yogen Lavari: When our equity investment required would be around Rs.3000 Crores am I right?

Akhil Jindal: The equity requirement in terms of this HAM we can predict the road HAM projects we can predict what our equity requirement is. Water is still at nascent stage whether the orderbook will be on an EPC contract basis or will it be on the HAM basis is too early for us to predict right now; however, the water segment is moving towards hybrid annuity model. As we speak we have put in the RSQ for about Rs.10000 Crores worth of HAM project, so we will have the clarity on the order book split between the HAM and the modes of order book and that will bring the clarity of the equity investments requirement. Also you may need to be mindful that this equity is a temporarily invested equity when it comes because there is a churn that should take place through EPC route, so theoretically the numbers may look as large as you are talking about, but practically those numbers do not pan out.

Yogen Lavari: This 250 billion is cumulative orderbook right now at the end of FY2020?

Akhil Jindal: That is a cumulative.

Yogen Lavari: Thank you so much Sir.

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

Maulik Shah: Sir, just I had a few doubts. Firstly what will be the impact of the interest rates on the HAM FCs and the FCs, which are being done as of now that is through the private banks or any other NBFCs and they are happening at what rate?

Sandeep Garg: It is a very good question Maulik. We have a combination of both private banks and national banks participating including the NBFCs in all our projects and to that extent our average cost of borrowing is in the range of around 9.5% for the 17-year loan period, now of course when the project gets commissioned and gets re-rated as AAA (SO) as I mentioned to you the cost can come down based on that time prevailing market price, so you can see that most of our projects have been achieved, financing has been achieved near to the lowest possible financing rate and even the new project that we are talking, which we have recently won the Tamil Nadu project despite the interstate movement by almost 1% during the last six months we are pretty hopeful that we would be able to achieve the financial closure in and around 9.5% plus some upfront cost so I think all in all we would maintain this 9.5% is our target interest rate coupon for the HAM project that we have won.

Maulik Shah: Thank you management for giving us the opportunity to host the call and thank you to all the participants. Sir, do you have any closing comments?

Sandeep Garg: We would just like to thank everyone for spending their time. We understand that there are some various commitments and calls and other things that people have to attend and they have chosen us to present affair and the true picture of the Company to all of you. Many thanks for the participation and support and cooperation. Should you have any leftover questions anything that we can further you need from us to call us offline and we would be more than happy to answer any leftover questions of yours. Thank you very much for spending time again.

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