“Welspun Enterprises Limited Q2 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Welspun Enterprises Q2 FY2019 earnings conference call hosted by Anand Rathi Shares & Stock Brokers. We have on the call today Mr. Sandeep Garg, MD & CEO, Mr. Shriniwas Kargutkar, the CFO of the company, Mr. Akhil Jindal, the Group CFO and Head Strategy and Mr. Jitendra Jain, President Finance. 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 entering "*" then "0" on your touchtone telephone. Before we begin I would like to say that some of the statements made in today's discussion maybe forward-looking in nature and may involve risks and uncertainties. I now hand the conference over to Mr. Rachit Kamath. Thank you and over to you Sir!

Rachit Kamath: Good evening to all my participants. On behalf of Anand Rathi Research. Without any further delay I would like to pass the call on to the management. Sandeep Ji over to you.

Sandeep Garg: Thank you. Good evening ladies and gentlemen. On behalf of Welspun Enterprises, I welcome you all for Q2 FY2019 result analyst concall. Along with me as have been told is Mr. Akhil Jindal, the Group CFO and he is Head for Strategy, Mr. Shriniwas Kargutkar, the CFO and Mr. Jitendra Jain, President Finance.

The Q2 as you must have seen it has shown another quarter of long strong momentum, the growth continues. The reported numbers are reflecting the growth and this will be dealt by Mr. Akhil Jindal in the call later on.

I would want to start this discussion or the concall with some good news, which the results may not be able to communicate. Firstly, as some of you may recall, Delhi-Meerut Expressway package one the Delhi section of it was one of the first HAM products awarded by NHAI. This is a project, which we could do this the financial closure for the first time in the country for a HAM project. We were the first ones to also complete the project and get the provisional commercial operation date and now we are the first one also to get the completion certificate.

So in effect our presentation that we will believe in operational excellence is truly delivered by the project. It is also reflected in Mark, which is right now evaluating the projects all across the country for the various awards for excellence has shortlisted this project for two of the categories, one is in excellence in construction management and the secondly in innovation.

You may recall that this project is one of the first green expressway wherein we have gone ahead with solar power generation for the requisite the needs of the project, also put up the vertical gardens and drip irrigation technology and LED lighting system to reduce the carbon footprint and make sustainability hallmark of the project.

The other project that I would want to share some good news with the investors is that the Gagalheri-Saharanpur Yamunanagar project reached its first milestone of 20% progress, which is also a payment millstone for our company, 71 days ahead of schedule and is subsequently also moving ahead as per plan. So we are reasonably confident that we will not only complete the current schedule but ahead of schedule.

The other project, which is in Uttarakhand and UP the Chutmalpur-Gagalheri-Roorkee-Ganeshpur project, it has also met its first milestone of 20% in this quarter on time. In this quarter we also got the appointed date for Aunta-Simaria, which is if you may recall is a project which on Ganga River and about 8 kilometers, 8.15 kilometers of road for about Rs. 1161 Crores.

In addition to this I would also want to share with you good news on oil and gas side the project the block GK-1 has also met its target depth and the good thing is that the bottom layer, which was the target depth has produced gas and is currently under testing pace and this is a zone which is hitherto not produced in that region so we are quite hopeful that the commercial viability of this block will be established as with the appraisal program goes further.

Now coming back to the main business which is the infra just to recap the current portfolio of the hybrid annuity model projects is in number six which is amounting to about Rs.7000 Crores and all these projects are financially closed or tied-up including the projects Sattanathapuram-Nagapattinam, which is awarded recently and is still the construction agreement is yet to be signed has been financially tied-up.

The current order book as far as EPC is concerned is about Rs. 5350 Crores including escalation and change of scopes, which gives us the visibility for next two quarters of this financial year as well as the next financial year, which we should be in a position to meet our guideline of doubling up the revenues every year, year-on-year basis for next two years which we gave at the start of this year.

Coming to specific projects, the first project Delhi-Meerut Expressway one package one or a Delhi section as we call it, it received its provisional commercial operation date on June 28, 2018 and we were able to complete the punch list on time and NHAI has now approved the completion certificate to be issued with effect from September 29, 2018. This will allow us to get the first annuity and the bonus for the early completion by end of December 2018.

The next project that I would want to talk about is Gagalheri-Saharanpur Yamunanagar called GSY the NHAI declared which appointed date on January 26, 2018 in the last quarter there was the project there was heavy rains and prolonged rain so the work was affected; however, despite that we were able to achieve a progress of cumulatively 30% by the end of Q2 2018.

The project is on target and is on early completion and going forward we will keep you appraised about the developments on this project. There is an adjoining project to this project which is called Chutmalpur-Ganeshpur and Roorkee-Gagalheri normally called CGRG the appointed date for this project was achieved on February 28, 2018 and since it is an adjoining block it was also equally affected by the long and heavy rains in the region and we could achieve on this project a physical project completion of 20% by the Q2 of the 2018.

This project is also on target and we should be in a position to complete it before schedule. The project Aunta-Simaria, which is primarily a bridge project with 8 kilometers of road the NHAI declared its appointed date on August 30, 2018, the execution is in full swing post the monsoon period.

Chikhali-Tarsod, which is a project in Maharashtra we have achieved the financial closure for this project and we are expecting the appointed date to take place in November 2018. The site is fully mobilized and the developmental works are underway. The site mobilization gives us the confidence that as soon as the appointed date is announced by NHAI we should be able to hit the ground.

The last project that I would want to talk about in roads hybrid annuity projects is Sattanathapuram-Nagapattinam which was a project for which we have received the letter of award in on July 5, 2018 we are awaiting the signing of concession agreement; however, as a parallel we have gone ahead and got a firm sanction letter from the lenders for financial closure of the project. We expect the concession agreement to be signed in next 15 days and thereafter we would want to push for an early appointed date so that this project also starts generate revenue.

Coming to the vertical that we recently added the water. In water we were earlier a small player, which we are trying to now grow. The important project in that is Dewas water as you would know that it was a project that we got restructured and the restructured project appointed date was received on May 7, 2018. It was supposed to be completed by May 6, 2019; however, we are confident that this project will be completed before schedule as on end of Q2 of 2018 the project has already completed more than 25% of the said project.

Coming to the oil and gas sector just to recap the oil and gas exploration E&P is in a joint venture with Adani, where Adani holds a stake of 65% and Welspun holds a stake of 35% there are five relevant blocks at this point in time two in Kutch where the operator is ONGC, one in Mumbai which is 100% owned by us, one is with the Discovered Small Field project that we acquired recently and project in Palej which is on hold.

The Kutch block there are the two projects that we have, as I said I am happy to share that one of the projects called GK-1 the appraisal well has been drilled and we have for the first time gone below the basalt at the depth of about 3400 meters and hit the gas which is right now under testing.

There are six potential objects identified for testing and post this testing will be know the potential or the commercial viability of this block. For the other block GK-II the appraisal is underway and as soon as we hear about the appraisals results we would be able to brief you about the same.

The major block Mumbai block or what we call MB/OSN/2005/2 is a block, which is 100% owned by the joint venture, we have decided to move in to the phase II of the exploration of further block by relinquishing the phase I and we are expecting the approval from MoPNG/DGH, but the process is just taking sometime but we are hopeful that in this quarter we should have the approval to move into phase II of the project and we will start exploring this block as well.

The last block of address in oil & gas is the Discovered Small Field block called B-9 block, which is adjacent to the Mumbai block MB/OSN/2005/2. This is a discovered block and the presence of oil and gas is established. We have submitted our field development plan to DGH and the current situation is that we are engaging with the subcontractors for developing this well and establishing the revenue from the block.

On the outlook of the business we expect that in the next two to three months the NHAI, which has not been announcing the hybrid annuity projects in the last six months will start the bidding activity and we would participate on those bids. To enlarge our customer base, we have also started targeting bids with the states. We are looking at Maharashtra and MP etc., so as to ensure that the clients if one client is slightly slow our growth is maintained. We will be selective in both selecting the state to bid for and the project in that state to be bid for so we will be cautiously approaching this market segment.

The water segment is quite promising right now. The hybrid annuity model has taken its fruit in the water segment as well. The project in Andhra Pradesh amounting to about 10000 Crores have been announced on hybrid annuity model and be along with our JV partner have qualified for all the projects amounting to 10000 Crores in totality. Five projects are announced on the same so we are looking at it. There are other projects like Namami Gange also on hybrid annuity model. We are expecting a lot of other projects in Maharashtra, Gujarat parallelly we are exploring at them and we expect them to be on hybrid annuity model.

My vision is that going forward the water segment will become almost at par with our current status of road projects, the potential to grow and that lines is tremendous. We have a very strong order book of about 5300 Crores. We have a very healthy cash balance and we are given the strength of our business and our performance till date gives us a lot of confidence that we can win many projects and do the financial closures early and given the competitive environment in the market we believe that the environment is currently more conducive for players like us which who are assess who continued the asset light model and are focusing on operational excellence and our prudent risk management with a healthy balance sheet. So we believe that in the future the opportunity for us is going to be much better and the competitive intensity may be slightly lower.

Let me try and conclude by saying that these are interesting times these are exciting situation to be in the kind of balance sheet that we have and the opportunities that we have. With our credit rating being robust credit rating we expect to be able to do the financial closures for the all the future projects effectively and our strong balance sheets and operational excellence will give the confidence with the lenders that we are well poised to do deliver the projects on time and ahead of schedule.

Our differentiated asset light model is also now showing the results and on our risk adjusted return on capital this seems to be a model which has a better future and we believe that this model will yield results in the fluctuating environment, business environment that we are seeing.

With this I would want to hand over to Mr. Akhil Jindal my colleague to give you an overall view on the company's financial results. Over to you Akhil!

Akhil Jindal: Thank you Sandeep. Good afternoon everyone. This has been a good quarter in all respect, Sandeep gave you the operational development and the operational excellence that we achieved during this quarter. Let me share the financial numbers with you. I am sure many of you would have seen the numbers by now.

Just the summary that I would cover in the opening remark is that we had a good quarter with 77% growth on a YoY basis on the revenue side and similarly on the EBITDA side we had a good growth of 157% on the operating EBITDA side on a YoY basis so that way I think this has been a good growth and this has been in line with what we had been guiding and advising in the market constantly. Similarly, the company has reached to a critical mark where more than three projects contributed to the topline rather than just one project, which contributed last time last year the similar quarter.

In this particular quarter three projects got, three projects were contributing to the topline, similarly as we go along more and more projects will add to that. So that growth and the momentum should continue and similarly the margin growth as both as our absolute number as well as on the percentage basis should continue.

So you would have seen that we have almost achieved 50 Crores and I am doing an approximation here almost 50 Crores of EBITDA just in this quarter and of course this have been relatively a leaner quarter because of the monsoon season during this quarter so what has to in all likelihood should be far more stronger than what our H1 was and more than three projects could be operational and as a result operational means more than three projects could be in construction stage and as a result we would have more and more revenue in the EBITDA built-up.

Just to summarize on one point as Sandeep mentioned about the growth capital so we have around Rs. 680 odd Crores liquid money with the company and where almost 80 Crores had been deployed additional within our subsidiaries in lieu of the debt more expensive debt to be drawn and to that extent I think the company is well poised. So all our projects at this juncture are fully funded both on equity side as well as on the debt side.

We have achieved financial closure on every single project and to that extent I think there is no concern in anyone’s mind within our group in terms of the ability to take more projects profitably and to built upon that. We have almost achieved a target of around 12% on the operational EBITDA, which is what we had been guiding you so far our H1 operational EBITDA was around 11.7% just in this quarter it was 12.9% so average being 11.7% so I think on the EBITDA side also we are quite on track.

I think all in all I think the company has been progressing in a manner and we have predicted at the beginning of the year and we had been winning the projects very selectively very, very cautiously the ones that we really feel are going to add value in a medium to long-term and of course it is compounded by the fact that we have asset like strategy. So and when the project will get complete they would be exit the strategy the capital would always been churn rather than just being blocked in one or two projects and to that extent I think the strength of the balance sheet will remain intact throughout.

I think with this I open the floor for the questions if you have any specific questions and we can address it during the question here.

Moderator: Thank you. Ladies and gentlemen we will now being with the question and answer session. We have the first question from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: Good evening Sir. Congratulations on a very good set of numbers. Sir two things, which I would like to know one, we have not seen a much ordering from the NHAI or the MoRTH side in the first two quarters of the year. So how do you see the projects and the bidding pipeline coming up for the sector as a whole and for you in particular?

Sandeep Garg: NHAI has been a bit slow in the first half of the year, so as usual that is the case if you recall March and April saw very hectic bidding and awarding so there is now right now consolidation phase going on. We expect the activity to once again pick up in the third week of November and an aggressive second half as usual should be there; however, given that this is more of this is also a election year there may be a more of EPC projects and what we saw in last two years, the HAM projects because of the nature of the business they take about five to six months after the award to start with on round and there maybe necessity to start the work early and hence the EPC percentage maybe slightly more NHAI at this point in time, it may be as high as 60% on their ground of the total traction to be awarded. However, the states have already taken up to the hybrid annuity model and we are opening up the states for the HAM model so individually as a company we believe that our guidance of the order book is remains unchanged. We believe that the orders will come and since there is a financial distress in the country, we expect the competitive intensity would be slightly less than what it was earlier.

Dhruv Agarwal: So if there are more of EPC projects on offer will you bid for the EPC as well?

Sandeep Garg: I do not believe that we will be looking at EPC projects; there are enough hybrid annuity projects where there are going to be much lessertakers.

Dhruv Agarwal: So you will selectively bid for your EBITDA specific projects over there.

Sandeep Garg: Yes.

Dhruv Agarwal: Sir I missed some points regarding the Andhra Pradesh water project to the tune of 10000 Crores which you have qualified for, if you can please put some more light on it will be great Sir?

Sandeep Garg: There are five projects, which Andhra Pradesh has come up on a hybrid annuity model wherein there are four companies, which have prequalified. We happen to be one of them in along with our JV partners and we will be bidding for them once the RFP has been issued and then we are looking at the terms and conditions with our thresholds of returns and the risk and reward balancing takes place under the contract we will be bidding for that and we are hopeful that we will be in one of them.

Dhruv Agarwal: Sir regarding your topline you have again reinstated that you will double your topline this year so regarding the EBITDA margin excluding other income what do you see the EBITDA margin for the whole year for FY2019.

Sandeep Garg: I expect the EBITDA margins at the operating level to be around 12%.

Dhruv Agarwal: That is excluding other income.

Sandeep Garg: That is correct.

Dhruv Agarwal: Thank you so much.

Moderator: Thank you. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Thank you and congrats on a good set of numbers. Sir which are other three companies were qualified for this water project? And second is when likely the bidding timeline so initially it would be the one or two packages or the entire five would be simultaneously open for the bidding?

Sandeep Garg: I think from my memory I do not exactly remember the other joint ventures are what I think we are qualified that then the Tata projects is qualified, Mega Engineering is qualified, and Adani is qualified so there are four bidders. I expect the bids to be sequential rather than all simultaneous so this is what my expectation is but we really do not know how the client will choose to bid them out.

Shravan Shah: And our share in JV would be?

Sandeep Garg: We are the lead bidders on the JV right now and depending up on which project we will bid for we will decided for specific split, but we will be the lead bidders on the projects that we bid.

Shravan Shah: So at least we would be having a 50%, 51% share am I right?

Sandeep Garg: We will surely have more than 51% share.

Shravan Shah: But all these five packages most likely to be awarded in next five months by end of FY2019?

Sandeep Garg: We are looking forward to that your guess is as good as mine, the government's decision I cannot predict.

Shravan Shah: Yes, I understand.

Sandeep Garg: The bid is out so if the government may take it forward within this financial year is our expectation.

Shravan Shah: And the construction period would be two to three years?

Sandeep Garg: It is a three years construction with seven years operational maintenance contract.

Shravan Shah: So in terms of overall whatever the growth capital we have and in the initial earlier the target that we would be having a road HAM project so how would now the strategy in terms of now all these five are open so whatever the new projects that we are targeting in terms of inflow looking at the equity requirement also there in the water also. So in terms of the share would be 50/50 would will you looking at road and water or how it would be?

Sandeep Garg: Water is yet to evolve we do not know as of now. We are just qualifying how the competitive intensity is going to be there, how our thresholds and our expectations will be met is yet to be seen. So it is going to be difficult for us to predict the split between water and road, but going by the current estimates the 80% of the current at least in the foreseeable year or two we will have majority of projects from road and minority from water and this year we expect at least 80% to be in from road not more than 20% will be form the water.

Shravan Shah: In the HAM currently how much tenders in terms of number and the value you are seeing that can be is there the tender stage or and likely to be may be awarded in at least in November and December and how much are we planning to be debt and at the same time looking at or are there any projects that are we looking at to acquire the way where we have done for like our MDF projects?

Sandeep Garg: There are multiple projects in the market right now available for taking up; however, a few of them, which we have looked at are not meeting our thresholds and hence we are not looking at them. My expectation is although NHAI is listed about 38 odd projects to be on HAM this financial year but I believe at least 15 projects from NHAI will come up for bidding this year the rest may move to EPC from the HAM model and we will be bidding for most of these projects for sure.

Shravan Shah: That is great. No issue Sir.

Moderator: Thank you. We have the next question from the line of Kashish Shambhwani from Newgen Capital. Please go ahead.

Kashish Shambhwani: Thanks for taking my question. Sir our revenue has been lower this quarter as compared to last quarter and our margins have been bit higher so what is the reason behind this?

Sandeep Garg: As far as the revenue is concerned it is very simple that this is a monsoon period impact so when the monsoon is there the year you cannot push the work as effectively as you can do during the dry season. The reason for our better margins is that the Delhi-Meerut project in the Q1 was at the closure end and we were accounting for everything that we needed to do. Secondly the GSY and the CGRG had just met with its appointed date and they were cost incurred; however, they were not throwing up the EBITDA margins at that level and now that since the projects have matured and we have achieved 20% and 30%progress we move exactly where we are ending. So and hence the results the EBITDA margins are reflective of the current reality.

Kashish Shambhwani: So now operational EBITDA will maintain around 12% going forward right?

Sandeep Garg: Yes, on the basis that we see as 12% upward of 12% is what we look the EBITDA margins to be operational level.

Kashish Shambhwani: Okay upward of 12% and sir coming to Delhi-Meerut project when are we then how are we planning on this when are we planning to churn this off.

Sandeep Garg: As we know we are entitled to churn 49% of the equity now we cannot churn 100% at this point in time because of the concession agreement requirements; however, we are now that we have the completion certificate we will be engaging actively to see what best we can do and of which really we can churn the project.

Akhil Jindal: Just to add what Sandeep has said we have also got a rating done of this company so now this company is a AAA (SO) rated by ICRA and to that extent we have multiple options not just to churn the asset but also to be able to do securitization of the future cash flow and to get part of our equity back. So all of these options are being evaluated while we talk. I think the completion certificate was a very important milestone for which we were expecting for some time and now since that has been obtained all these options are being explored.

Kashish Shambhwani: So what is the expected timeline on this?

Akhil Jindal: I think in a quarter’s time we would be all clear to come up with a concrete plan. Market are in a little fixed stage at this juncture because of the financial issues so we may not get the best of the pricing in terms of the debt issuance so we are just waiting briefly for the stability to kind of a stability to be maintain and to that extent I think by November end we should be in a market to explore these options more vigorously.

Kashish Shambhwani: Sir coming to one financial item receivables have gone up this quarter it is 179 Crores against 34 Crores what is the reason behind this jump in receivables?

Akhil Jindal: See most of the receivables are from SPVs so Welspun Enterprises and since we effectively manage our cash flow so that we do not draw debt upfront as we need to maintain our, we need to maintain progress on the project and hence the receivables will continue to fluctuate depending upon how much money we require to push the job.

Kashish Shambhwani: Sir this consolidated debt of 416 Crores it is all at SPV level or parent level?

Akhil Jindal: No the parent has practically no debt. The only debt that is there is from parent for water project for which also we have kept an FD separately so to that extent there is the parent is debt free entity practically so the debt that you see on a consol basis is largely the SPV debt.

Kashish Shambhwani: And when do you start paying it off actually this SPV level debt?

Akhil Jindal: The SPV level debt has a direct correlation with the receivables from NHAI. So like example for the Delhi-Meerut once it is we have already completed that and to that extent the annuity will start, the first annuity is likely to be by December end. So the way this has been structured is in the over the next 15 years NHAI is going to give us the total annuities which is equivalent to the 60% of the project cost plus the interest so as and when the annuity from NHAI will be received the debt will be paid down. So it would have a direct correlation and that is the reason why the completed project like Delhi-Meerut we have been able to get the AAA SO rating because they are now directly in line with the NHAI payment so NHAI will make a payment and the debt will have paid down. So that is a natural flow of fund that will happen.

Moderator: We will move to the next question. We have the next question from the line of Harsh Saraswat from Girik Capital. Please go ahead.

Harsh Saraswat: Sir I just wanted to ask what will be the impact of these rising interest rates firstly on the project IRRs at the time of selling the projects and secondly on the execution of the projects at the SPV level?

Sandeep Garg: See the way hybrid annuity works it is the interest rates payable by the client are also linked to the bank rate so practically but for the minor lags that can take place on the cycle of interest and this is only on the spread gain rather than actual cost gain. So to that extent there is a natural hedge available in the business model during the O&M phase. As far as the construction phase is concerned, there could be impact of increase in the interest cost going forward; however, at this point in time we see no risk because the business model has been accordingly planned right from the start that there could be some upward revision and that has been accounted for in our forecast.

Sandeep Garg: It is a contingency that we had put it in these projects.

Akhil Jindal: So that is already accounted for so we are not the business profitability is not at risk.

Harsh Saraswat: Sir when we go to sell these projects like we look for 1.2 times book or 1.1 times book does that yet impacted if the interest rates increase because my project IRR has to will come down eventually?

Sandeep Garg: As I had said Harsh that there is natural hedge against debts to debt, debt-to-debt compress debt so we do not expect any major differences to come in.

Akhil Jindal: The bank rate moves in conjunction with the interest rates we practically have no risk, but if there is a major time lag effect between the two then yes the IRR gets impacted otherwise if the bank rate goes up the base rate or the PLR or the pan lending rate and you would like to call all of them move in tandem. At time there could be some anomalies temporarily which may look adverse but in a medium to long-term they all get aligned beautifully and in that sense I think the project IRR is more or less maintained.

Harsh Saraswat: Thank you so much Sir.

Moderator: Thank you. We have the next question from the line of Aditya Chandrashekhar from Edelweiss. Please go ahead.

Aditya C: Just a couple of questions could you please let us know what the interest rate was on the sales that were recently done for the two projects?

Akhil Jindal: Yes, so the last project which was the Tamil Nadu project that we recently won, the award was somewhere around July and since when the company had vigorously work with the lenders to achieve the financial closure. The concession agreement is about to get signed and the interest rate that we had contracted with the lender is 9.75% by coupon and around 1% as the upfront so all in all cost of around 9.85% to 9.9% as an average. And the revenue from the NHAI is also likely to be in the same zone as 9.75% so we are quite in range between the costs in the revenue that we will get from NHAI.

Aditya C: May I ask who the lenders are for this?

Akhil Jindal: At this juncture, I am not in a position to share the exact name of the lender for a reason that the documentation is in progress. Once we have the loan agreement signed I would be happy to share with you the name of the lender.

Aditya C: But it would be banks or it NBFCs?

Akhil Jindal: No NBFCs. These things are usually not done by NBFC and this is for this is a large financing. We have almost 1000 Crores of financing done for this project so we are not dependent of upon any NBFCs or any intermediaries or for that matter any nonbanking channels these are pure, pure banks and to that extent I do not foresee any risk of any financial closure not happening due to any current financial situations.

Aditya C: And this is the similar case for the Chikhali-Tarsod project also right.

Akhil Jindal: Yes, Chikhali-Tarsod also and in fact we are as Sandeep has mentioned we are about to have an appointed date also for this project and to that extent this is also funded by the bank only; banks only, rather not any NBFC.

Aditya C: And what would be the upfront equities for these projects.

Akhil Jindal: Yes, so the way it works is 12% is the overall equity requirement for these projects it is our endeavor to put at least 50% of the equity upfront both it gives the confidence to the lenders as well as it enables us to achieve early milestones on these projects but we are not even awards to put 100% as and the situation may demand. In fact as we mentioned in the beginning of the call we have put in more 80 Crores in projects early of drawing that debt which can technically be drawn immediately but as and try to save the interest on these projects we are extra funding these SPVs so to that extent that is our endeavor to reduce the IDC and to reduce the project cost so I do not see any challenge in funding the equity we have enough liquid cash 600 Crores with that and that is enough for us to fulfill any of our equity requirement on the current portfolio that we have.

Aditya C: Just a related question so how do you see things have changed since your earlier project that are under construction now like CSY or CGRG do you think terms are similar or kind of have gotten little unfavorable to you in terms of the financial closure?

Akhil Jindal: Lenders have certainly become more cautious, more conservative in their approach, no doubt about it and to that extent I think most of our financing had been more or less on the same terms but for some minor changes but clearly my general sense is that the lenders are become quite I would say quite particular in terms of the project and its requirement they kind of being cautious in terms of the quality of the assets, the quality of the borrower and ultimately the quality of the principal, which is executing the project and to that extent the lenders are not kind of happy if anyone approaches them with four or five projects they are very clearly looking at these projects individually and to that extent Welspun had never faced these challenges at parent we are the only minus rated all these projects are in the range of A or A- ratings so to that extent even at any point of time we are not in the make for more than one project so I think financial closure has never been a challenge as far as these projects Welspun projects are concerned.

Aditya C: Thanks a lot and all the best.

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

Giriraj Daga: First thing is if I heard correctly you have mentioned 15 projects expected on a HAM side is the number you mentioned?

Sandeep Garg: That is correct from the NHAI.

Giriraj Daga: And would the amount why should it be about like 1000 Crores average.

Sandeep Garg: About Rs.1200 Crores average.

Giriraj Daga: Any idea on the states that you also seeing they are also going on happen so any particular number there like what is the amount of ordering we are expecting in the next six months?

Sandeep Garg: I would safely put it to about 20000 Crores on the HAM side of the projects and the states that we are looking at I do not know there may be other states that we are not looking of they may have additional projects.

Giriraj Daga: We mentioned that we will be retaining our inflow guidance that was 5000 Crores right if I remember correctly?

Sandeep Garg: That is correct.

Giriraj Daga: Secondly my question is related to the like based on the availability of capital and the funding limits available what will be the total inflow we are expecting in FY2020 put together the road and water what can be the initial guidance on the FY2020 inflow?

Akhil Jindal: You mean to say the order inflow is that the order inflow…

Giriraj Daga: Order inflow further we are getting.

Sandeep Garg: Orders we would be targeting about 7000 odd Crores orders in that year.

Giriraj Daga: 7000 Crores put together the road and water.

Sandeep Garg: Yes, put together with water.

Giriraj Daga: My third question is related to the margins. So if you look at the segment numbers, which we give so last quarter we had included the bonus also early completion bonus of 14 Crores still we reported infrastructure reported 45 Crores and if I removed that it becomes about 31 Crores but this time on a like almost very sharp dip in the revenue we are still reported very strong margins so is there any one-half there or it is the just generic margins it should continue at this level, because the numbers is coming at about closer to 16%, 17% on a EBIT basis?

Sandeep Garg: Yes, the bonus was actually included in the March numbers so it was not in the June numbers. In fact, in last call also initially probably we said that it t was recognized in March numbers.

Giriraj Daga: Okay but still the margins looks good 16%, 17% on EBIT basis?

Sandeep Garg: That is basically the CGRG and GSY projects, which has actually started giving more margins because of the maturity of the project. In last quarter it was just started so if there were no credit margins in those projects. So as you can see there is a progress in the margin, which is a real progress as far as EBITDAs are concerned.

Giriraj Daga: My last question like normally the HAM projects have about 300-basis point over and above the RBI bank rate?

Sandeep Garg: Yes, that is right.

Giriraj Daga: Yes, so the RBI bank is about a 6.5% right.

Akhil Jindal: 6.75% so to that extent the revenue from NHAI is valued at 9.75%.

Giriraj Daga: So we are more or less on the breakeven level on the interest for the large part of it?

Akhil Jindal: Yes that is right and this is a breakeven during construction because the project has completed as I mentioned the rating improves dramatically and then either the refinancing at a cheaper rate or the same lenders reducing the rate to the extent of at least 50 BPS is not ruled out so we would not be out of pocket because of the interest rate hike in the recent months and to that extent whatever time lag effect is there with the bank rate that should also get corrected in near future.

Giriraj Daga: Thanks a lot and all the best.

Moderator: Thank you. We have the next question from the line of Preet Nagar Sheth from Wealthfin visors. Please go ahead.

Preet Nagar Sheth: You mentioned about the decrease in HAM projects and looking to states so what is the kind of bid to order ratio you would now be looking at because of the change in equations?

Sandeep Garg: See we have historically seen that our bid to win ratio is about 15% to 17% given the competitive intensity could be slightly lower. I do not think it will be any higher than 20% so one in five bids is what possibly we would be able to.

Preet Nagar Sheth: So say out of the 15 HAM projects at NHAI levels if you look at that ratio?

Sandeep Garg: Yes. It is about 4000 Crores from NHAI and about another 1000 Crores from somewhere else.

Preet Nagar Sheth: Which is what you are targeting so that should give you the guidelines?

Sandeep Garg: Yes.

Preet Nagar Sheth: The other question was that you the growth capital is parked in liquid funds as you mentioned so any challenges that you see in terms of the issues that we are seeing right now, any challenge in getting the funds back from any NBFCs or anywhere else?

Akhil Jindal: As I mentioned in the beginning we are not exposed to the NBFCs at all in that sense so to that extent most of our financing has been done through the banking channels and banking system and to that extent, I think there has been not any challenge in there and as the projects will get complete or near to complete there would be refinancing done, there would be churning of those assets there would be churning of those equity and this is how we have planned even before to that extent we are very much on track. While the new money that become difficult no doubt but I think the way we have planned the way we have got ready for the situation I do not see any challenge but yes of course if the credit market keeps on getting is squeezed and the lenders become more and more choosy then obviously the competitive intensity will also come down and to that extent the margin will be protected. We have seen now the bidding that has happened in the recent months particularly last two, three quarters had not been in line with what the sensible bidding should have taken place and to that extent I think this will only bring more discipline in the market and in the bidding zone so I think we are okay with the current situation.

Preet Nagar Sheth: Because Chikhali-Tarsod project appointed date is we are seeing new timeline all the times so can you share what is causing the delay because without the appointed date you cannot start recognizing the revenue actually cannot start doing work?

Sandeep Garg: See Chikhali-Tarsod as a project as you may be aware we have got from the bidder who has got bidded. The challenge has been in terms of the railways requirement undergoing change on the ROBs. So railway has come up with an additional line to be laid and which need to be accounted for and as a CP it is a CP of NHAI. NHAI needs those requirements and now that they have clarity on these aspects so they are now agreeing to the supplemental agreement that there will be no claims or counterclaims against either party and hence we are expecting the appointed date to take place by the middle of November.

Preet Nagar Sheth: Do you anticipate similar delays with the Sattanathapuram project as well or do you think that would be lot faster in getting the appointed date relatively speaking?

Sandeep Garg: We expect the appointed date to take place in first week of January 2019 not earlier than that. SNRP project does not have, to the best of our current knowledge, these challenges that we are seeing in the CTHPL Chikhali-Tarsod project so I do not expect any substantial delay there a month or 15, 20 days here and there we can now predict.

Preet Nagar Sheth: What could be the impact for that the raw material cost or the increase in raw material cost say for example steel and so on so forth you see the big players increasing the price so how would this be impacting your costing?

Sandeep Garg: As far as the bid project cost is concerned it is escalating at the because of WPI, CPI indices and when we see the EPC cost indices of NHAI versus the WPI, CPI indices the last two years have been very clear that the increase in the construction cost, construction EPC indices versus the

WPI, CPI indices the WPI, CPI indices are giving more escalation than the EPC escalation has been. So it is not a risk at all. Individual items pricing going up and down does not impact so much in the overall cost because the percentage impact of the overall project cost is very limited so I do not see that as a risk because there is a natural hedge available in the concession.

Preet Nagar Sheth: Thank you.

Moderator: Thank you. We have the next question from the line of Govind Sabu from India Nivesh Portfolio Management Services. Please go ahead.

Govind Sabu: Sir in your consolidated balance sheet there are trade receivables of 179 Crores so can you throw some light on what kind of trade receivables are there in the console balance sheet?

Sandeep Garg: These are as I said in my earlier response that these are trade receivables from the Welspun Enterprises from the SPVs so we effectively do not want to draw debt and pay the Welspun Enterprises and thus increase the cost because the cash flow requirement is not there on the Welspun Enterprises level so we are optimizing our cost rather than just drawing the money and reducing our receivables are payables.

Govind Sabu: Thank you.

Moderator: Thank you. We have the next question from the line of Ajay Gupta from Avenue Finance. Please go ahead.

Ajay Gupta: Good evening. Congratulations on a lovely set of numbers. Just one question, you have given a guidance of about 2000 Crores for the whole year of FY2019 and 4000 Crores for FY2020 with an EBITDA of 12% in the first two quarters you have been able to do a roughly about 640 Crores would it be fair to assume that you would be able to achieve this 1350 Crores in the next two quarters, which means the run rate of like 625 Crores a quarter or do you see any slippages in that?

Sandeep Garg: We are very confident that we will meet the guidance. To put the issues in perspective if you were to see the last quarter last year of our numbers we did about 34% of our revenue in H1 and we did the balance 66% in the H2 so and if you look at the other companies in infra space that is typically in the same range 34% to 40% is what normally they would do in H1 and the balance in H2. In our case it is more prominent because three of the projects have just on the anvil to meet their appointed date and will start only chugging these revenues in the H2. I see no risk to the guidance that we are doing.

Ajay Gupta: So is it fair to assume roughly 600 Crores for the next quarter?

Sandeep Garg: I would not say that it is that 600 Crores for the next quarter is fair to assume because some of the portion of October also goes into the monsoon period; however, it will be fair to assume that in the next two quarters we will be able to get our revenue of around 1350 Crores the Q4 is going to be always a bumper because it gives you an absolute drive spell and everything kind of is right or revenue generation on a road project.

Ajay Gupta: Thank you very much.

Moderator: Thank you. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Sir can you share the project specific revenue for Q2?

Sandeep Garg: At this point in time, I do not have it readily available. I would suggest Shravan if you could have a discussion with the team.

Shravan Shah: And the same just Sir in terms of our projects specific order book breakup shall I also take it offline?

Sandeep Garg: Yes, I would appreciate if you could.

Shravan Shah: Sir the one question is in terms of the for the last Tamil Nadu HAM project though we have got the LOA and we are seeing almost the FC lenders are ready but how come the concession agreement we are not able to sign. So appointed date pending I understand but concession agreement what is the sticking point?

Sandeep Garg: The SPV formation took longer at the NCLF and so there were certain glitches in their system so which since you may know that this is now hands-off process where we just log in into the Internet and in the website and they come up with the registration it has taken longer than the expected time and hence the signing of concession agreement is slightly delayed.

Shravan Shah: That is it from my side and all the best.

Moderator: Thank you. We have the next question from the line of Rachit Kamath. Please go ahead.

Rachit Kamath: Good evening Sir. Sir I just wanted to know that we had almost 870 Crores of equity infusion as of last quarter so I just wanted to know how much have you already invested in terms of that because we had a target of almost 300 Crores in this year FY2019?

Sandeep Garg: Yes, so the total equity commitment on all these projects all HAM projects and the water project stands at 895 Crores that is a total equity commitment required by the company and so far till September 2018 we have invested 445 so the balance we have take 450 Crores as mentioned in our earlier commentary we have close to 680 odd Crores as a cash balance in our system and have to meet this equity requirement.

Rachit Kamath: Sir also I could not have that notice that our standalone level our gross block has increased by almost three times if you get to the number it is almost around 115 Crores or something what use to 20 Crores or something or what used to be 5 Crores?

Sandeep Garg: So to expedite the projects we are and aligning our contractor we are facilitating them by purchasing construction equipment for faster execution and which will be disposed of as soon as the project is completed so this is like an alignment of the contractor with us actions rather than an exposure on the construction equipment as I said.

Rachit Kamath: So will we be selling the assets off to the like what is the situation going to happen or at least on a target to the SPVs?

Sandeep Garg: We will sell this off; we already are in an option to sell it back to the contractor.

Rachit Kamath: Sir actually I also had a question regarding I heard that there are like companies like us like net cash have managed to close the debt at around 9.5% in current markets to so I was wondering it for 9.75% even 25 basis points is does that make a difference when it comes to an IRR perspective in the later stages. So was there any problem per se?

Sandeep Garg: All our projects had been contracted at between 9.10% and 9.40% between that and these are all our prior projects had got financial closure on that basis the last project which is Tamil Nadu project for which the FC has been achieved in the last week or so this has been of course done at a very turbulent time where so-called the financing the market had been in Jan and to that extent it might reflect a little bit more higher cost than what we would have desired but to that extent it is important at this juncture to achieve an FC and pay a little extra than to remain exposed with the market forces and to that extent I think we are very much in line and I have heard similar story where the FC has been achieved by some other developer at a much higher cost but I can at least say that we are 10 to 15 BPS higher than our own internal target but given the market situation given the financial situation where the most of the lenders are very shy of participating in the HAM project today I think this has been good results that we have achieved.

Rachit Kamath: Sir also you said that we are set gas in one of our projects earlier than expected correct. So I was wondering if willwe be turning contributing earlier than the expected like we only have one project which is a discovered field that you said and another project where we have already hit gas and it is in a testing phase so how fast will they become commercially viable in terms of revenue contribution?

Sandeep Garg: I think the Discover Small Field will take about two years after we start the field development plan to start producing. The other project, which we are testing right now because that will be a cluster development, may take a bit longer.

Rachit Kamath: Fine sir that is all from me. Thank you and best of luck for the next quarter.

Moderator: Thank you. We have the next question from the line of Kashish Shambhwani from Negen Capital. Please go ahead.

Kashish Shambhwani: The line got disconnected due to some network issue. Just to repeat that question, I was asking the debt which is at the SPV level so how do we plan to pay it off and when do we plan to pay it off?

Akhil Jindal: I was explaining earlier that the debt will be having a direct correlation with the NHAI receivables that will happen over the next 15 years as annuity so there are two approach that we have. One is of course if the project is continuous to be with us it will match the NHAI receivables. If the project gets exited, which is what our strategy is then of course the debt will be knocked off from the concerned balance sheet almost immediately. So as the project will be commissioned within two years, we would find an exit solution and to that extent a consolidation debt will go away. Otherwise it will just be in line with the NHAI payment that will happen over next 15 years and this debt is I would say does not hurt us for a reason that we practically become like a collection agent. We receive from NHAI and we pay to the lenders directly so it is more like an escrow arrangement so to that there is no risk attached to this debt servicing and to that extent the credit rating of this debt post completion of which is AAA SO also reflects the fact that there is practically no challenge that the company will face or the FC will face on this debt.

Kashish Shambhwani: But we do plan to exit the projects like Delhi-Meerut.

Akhil Jindal: Of course that is our I would say ground rule for even bidding and planning and to that extent all the HAM projects will follow that model. Of course the time if something that we will determine at a time when we will get the best of the valuation, best of the exit strategy so to that extent there might be three to six months plus minus in these projects but we do not plan to hold any of these projects in our books for its entirety and to that extent, I think they would all be exited almost immediately once the project gets complete with the stipulated guidelines of the regulator.

Sandeep Garg: I would just add to this point what Akhil made just to illustrate it, if you recall that we had a project called Dewas Bhopal earlier for which the majority stake was sold earlier and we recently got clearance from the MPRDC to disclose all the balance 13% and if you may have notice on the results there is 9.75 Crores of revaluation of this asset to reflect its true value which is supposed to be sold to the party which got the majority shareholding. So as a model our model is not to hold to maturity we will continue to create assets and sell those assets as and when permitted by the authorities and to that extent we may also want to consider that these kinds of gains, which are capital gain and help us reduce our tax liability we are in a 100% we are in the full tax regime and how because of our capital losses are earlier available the capital gain becomes tax efficient for us. This is going to be kind of a business model for us and you will see the selling of assets every year and to that extent the revenues arising out of the business which are truly a business income; however, because of the Ind-AS requirements of the accounting will either get reflected in the other income or in the exceptional items so this is something, which I would want to also add to what Akhil said that this is our model wherein we will have a capital gains arising out of the selling of assets and they would be reflected in other not in the revenue as we see but we reflected in the other income and the exceptional items but in true sense of the word the business is throwing up back return.

Kashish Shambhwani: Thank you so much Sir that was really helpful. That is it from my side.

Moderator: Thank you. We have the next question from the line of Sudarshan Bajoria an Investor. Please go ahead.

Sudarshan Bajoria: Just one question regarding the cash which is in line with the SPV which is 80 Crores now just wanted to understand how you are deciding this 80 Crores because you may have drawn more loan in the SPV so why just 80 Crores why not more, why not less?

Sandeep Garg: We continue as we said we optimize our cost of debt and effectively utilize our cash balances and we temporarily fund the SPVs and this money's going to those SPVs for specific purposes so this is more of an overall cash management situation rather than anything else.

Akhil Jindal: Also to mention that whatever is our equity commitment left to be put in that is something that we try and maintain I would say like a separate escrow account or a treasury account and anything surplus that we have over and above what we need in terms of our equity commitment for the future projects that gets deployed so you would see out of 600 odd Crores 80 is what we found as a bit of a surplus and we thought that is something that can be deployed in the SPVs but to that extent as Sandeep said these are all our efforts to reduce the project cost and the ultimate create value at the SPV level and this value gets reflected as and when the SPV gets sold or even the securitization happens so I think it is a prudent strategy rather than borrowing at a higher cost and at the same time deploying our own cash at a lesser treasury returns.

Sudarshan Bajoria: No sorry I did not get you. You were saying that this 80 Crores you will get only when the project gets securitized after the completion or you are saying?

Akhil Jindal: No this is not what I meant, I meant that this is in lieu of debt draw down technically we can draw the debt tomorrow itself and get the money back. I am saying the saving we achieved on account of this so-called interest arbitrage will get valued and will get reflected in the ultimate project cost being completed at a cheaper cost and to that extent the returns on the completed project cost will be greater.

Sudarshan Bajoria: No these projects are 100% owned by Welspun or there is 25% owned by the promoter SPV?

Akhil Jindal: No so everything is owned by Welspun there is no promoter per se involved in any of these projects we may have some structures around therefore the project that we were acquired but those are in line with more of a compliance requirement. There is no I would say promoter, promoter as such which is separately involved here. See the concern which I have is as you all know that debt scenario is becoming tightened even the lenders are become much more concerned about the project so if you put extra money it may happen that they may not allow get it back and for us this money is like equity money which is our growth money so tomorrow it would not happen that we are falling sort of this 80 Crores when we need this as a equity and for couple of percentage points interest rates, couple of percentage point interest rate arbitrage.

Sandeep Garg: No your concern are quite valid in a normal circumstances and this thing one has to be careful but as I mentioned all our lending arrangements and everything are firm and there has been a regular drawdown so to that extent this money is not at risk at any of these SPVs and we are well concerned of the fact that all the lenders and these are all repudiated lenders as I mentioned at the beginning of the call that most of these ones are fulfilling their commitment and there has been no shortfall in their disbursements.

Sandeep Garg : Let me add to Akhil if you notice in June it was a 200 Crores that we are temporarily loan right now it is 80 Crores so we are mindful of how much commitment we are making towards that equity and what is the right ratio of requirement. It is more as I said a cash flow management at an overall company level rather than a true investment into the SPV.

Sudarshan Bajoria: I think I will leave it to you on this call only thing I wanted to highlight because banks are become much more concerned about the lending part.

Sandeep Garg: Thank you.

Moderator: Thank you. The last question is from the line of Amrit Saxena from One Capital. Please go ahead.

Amrit Saxena: Sir my question to you can you please elaborate note 4B on the standalone?

Sandeep Garg: I would request one of our colleagues to answer.

Akhil Jindal: Let me take this question and I thought I had kind of explained it. The note is regarding the FVPTL gains on the revaluation of the Dewas Bhopal 13% equity valuation, which we are likely to sell to the buyers who got the major stake. Now we got the permission to sell this asset to from the MPRDC and as soon as we got the approval we revalued it so that so as to reflect the true value and then in the process taking up the discussion with the majority buyer to take over this asset as well. So this is going to be the business model. The business will throw up two kinds of returns number one is the revenue return that you see in day-to-day margins that is what we have been talking about through this call but there will be certain returns that will come from the business in terms of capital gain. Now it is prudent for us to take certain returns through the capital gain because we have accumulated capital losses of the past and we can have better tax efficient operation so the only thing that I would suggest to the investor community would be to take this as business gains rather than a truly other gains that other income that you see on a treasury basis.

Sandeep Garg: Thank you that is all from me. Thank you.

Moderator: Thank you. We will take the question from the line of ASN Raju an Investor. Please go ahead.

ASN Raju: I once again want to congratulate the management and the promoters on coming back from NBFC vision.

Sandeep Garg: Thank you Mr. Raju.

ASN Raju: And explain you that the cycle of NBFC is difficult because that is what happening now. The other thing is you are participating in Andhra tender, I think it would not come through before election process.

Sandeep Garg: Okay thank you.

ASN Raju: And the other thing is Karnataka I think the estimate compared to any other state Karnataka state estimate is well and no further delay in payment or the political everything that will takes care. If I compare Karnataka, it is ahead than any state government in India.

Sandeep Garg: We note that Mr. Raju we are fully cognizant of the Karnataka opportunities we are monitoring them as we go along.

ASN Raju: The other this is within sequence by the election I think the last opportunity before the end of February and the Andhra Pradesh which waswater projects is a typical maintenance work if you would not complete at least SPV in 1000 for 100 cubic meters of water we note at the finance in Andhra Pradesh there is a 250 in the quarter which will be there, there is a huge risk on water business that to how much if all do water in Q3 which compared to invest in water or any lift irrigation, lift irrigations are far better than the household water projects this is take care going to be say.

Sandeep Garg: We are fully cognizant of the issues Mr. Raju I can assure you and we will only bid only and only if these conditions are met number one we are happy with the terms of the concession number two we are sure about our payments and number three our thresholds of returns are met so let me assure you those guidelines are absolutely firm and fixed we are not do the deviate and no matter what opportunity comes our way if these three thresholds are not met we are not interested in that business.

ASN Raju: So the nature of work is also different from industrial water household water is really tough.

Sandeep Garg: I agree with you that is why I said we need an entity of substance to be a buyer other than just supplying it to the end users wherever there is an end user risk we will not be interested in that business.

ASN Raju: Please go through the Karnataka seriously it is there is a huge opportunity of gain as the government has spend 50% growth for revenue they are now interested in annuity only for the next three years.

ASN Raju: Sir there is a huge opportunity in our lift irrigation which will actually comes and high prices MFIs we have asset of Welspun lift irrigation space then the water supply to the household…

Sandeep Garg: I repeat we are looking at those opportunities as well we are looking at NVDA we are looking at Telengana we are looking at all these opportunities we will only people only pickup the opportunities which meet our threshold.

ASN Raju: Okay sir the other thing lastly NCC Nargarjuna Construction Company is not in way of going for hybrid annuity that they are very good in execution the part of it came to enter and timely completion is there with NCC they are ready to partner with any hybrid annuity financing companies there I think so.

Sandeep Garg: I am security aware of the situations in the industry we will keep it in mind thank you for bring it up Mr. Raju.

ASN Raju: Thank you sir, thanks a lot.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would like to hand the floor back to Mr. Rachit Kamath for closing comments. Go ahead.

Rachit Kamath: I think already seen a very good results I wish the management best of luck for quarter three and end of year over to you sir.

Sandeep Garg: Thank you ladies and gentlemen it has been an engaging one and a half hour session we look forward to you participating in the growth of the company and participating with us we welcome your feedback and we will take it into consideration when we model our business. Thank you.

Moderator: Thank you gentlemen. Ladies and gentlemen on behalf of Anand Rathi Shares & Stock Brokers that concludes this conference call. Thank you for joining us and you may now disconnect your lines.