

# Welspun Enterprises Ltd.

## Q2 FY18 Earning Conference Call

### November 01, 2017

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**Management:**            **Mr. Sandeep Garg - Managing Director & CEO - Welspun Enterprises Ltd.**  
**Mr. Shriniwas Kargutkar – CFO - Welspun Enterprises Ltd.**  
**Mr. Akhil Jindal - Group CFO & Head Strategy - Welspun Group**

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**Moderator:**            Ladies and gentlemen, good day and welcome to the Welspun Enterprises Conference Call for Q2 FY18 results and business updates. From the management, we have Mr. Sandeep Garg, MD, Welspun Enterprises; Mr. Srinivas Kargutkar, CFO, Welspun Enterprises and Mr. Akhil Jindal, Group CFO and Head Strategy, Welspun Group. 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. I would now like to hand the conference over to Mr. Sandeep Garg. Thank you and over to you, sir.

**Sandeep Garg:**            Thank you. Good afternoon, everybody. Welcome to this call. I would want to give you our business update and thereafter Mr. Akhil Jindal will take you through the financial performance.

On the infra side of the business as you may know, we have four projects totaling to about 4,100 crores. Out of which, we have liquidated some part, so we have a current unexecuted order backlog of about 3,500 crores. The projects are namely Delhi-Meerut Package I, Aunta-Simaria, Chutmalpur-Ganeshpur, Roorkee- Chutmalpur-Ganeshpur as a single package and Gagalheri-Saharanpur-Yamunanagar another project. These are the four hybrid annuity projects that the company currently has.

I would want to brief you one by one on the current status of these projects. Delhi-Meerut Expressway Package I, the appointed date took place in end of November 2016. We have just completed about 11 months on this project which is scheduled to be completed as per the contract in 30 months. We have in these 11 months achieved a progress of 70%. You may recall that in past NHA had congratulated us for achieving 20% progress about 4 months ahead of their target schedule.

I would want to share with my investors another major development. You may have noticed the coverage in the Times of India wherein NHAI has talked about the project under the heading "Nizamuddin Bridge gets with vertical gardens". If the NHAI talked about the beautification of the Yamuna bridge which we are doing in a responsive manner so that we do not even only build infrastructure, we build it beautifully, efficiently before time, and which is appealing and world class.

As a responsive company, we have also taken a decision to install solar power for the complete electricity requirement of the road and we are probably going to be the first company which will create a green road and that too we are likely to be ahead of schedule by a margin of 15-17 months. So, this is in terms of our progress on the Delhi-Meerut Package I. We expect to have a COD within this financial year.

The next project that I would want to talk to you about is Aunta-Simaria. Aunta-Simaria is primarily a bridge over Ganga river in the state of Bihar. It is an extradosed bridge which is the most aesthetic and current technologically best suited bridge for the flowing rivers. We have got the LOI in the end of September and we are currently in the phase of signing of this concession agreements. We expect that we will be able to do the financial closure for the project by middle of December and accordingly, try and obtain an appointed date in the month of December 2017, although we are entitled to as per the concession to get the appointed date by somewhere around April of 2018. So, we would want to prepone as far as possible, provided NHAI does have the appropriate land for us to start the construction.

The other two projects which are primarily in Uttar Pradesh namely Chutmalpur-Ganeshpur, Roorkee-Chutmalpur-Gagalheri and Gagalheri-Saharanpur-Yamunanagar. There are contiguous road projects, one for 53 kms, other one for 51 kms, total about 104 kms rigid pavement roads. We have already obtained this lending for these projects; however, at this point in time because of the land not being available with the NHAI, the appointed date has not taken place. One of the project is about 71% of the land available and the other one is lesser. We expect at least one of the projects to meet its minimum requirement of 80% within next 15-20 days from now and if that happens, we would want to get an appointed date by middle of November 2017 and that project will also go on stream and start generating revenues very quickly.

The other project may take another couple of months' time before its appointed date can be announced and we can start generating revenues. We expect it to start contributing to the revenue in Q4FY18.

I would also want to brief you about a water project, The Dewas water project, which is operating the BOT project in state of Madhya Pradesh. The project was not delivering as per the performance under the contract. We have been able to get the project restructured and the restructuring was done under the process of Swiss Challenge which gave us a First Right

of Refusal. We have exercised the first right of refusal and we have been given the letter of award. We expect the concession agreement to be signed in next 10 days or so and we expect the project to start by January 2018.

I would want to update you on the oil and gas, developments in oil and gas just to recall. We have currently 5 relevant blocks. We operate oil and gas E&P in joint venture with Adani wherein we have 35% stake and they have 65% stake. The 2 of these blocks are in Kutch and both of these two blocks have been already declared as discovery blocks. The commercial viability of these blocks is yet to be established if we are in the appraisal stage of the project. One project is in Mumbai which is still in the exploration phase. This project is 100% owned by us. We have a right in this project or we have an agreement with ONGC for this project date to be farmed into this project with a 55% of PI(participating interest) to them and 45% with us in the phase 2 of the program.

The fourth block which is of relevance is the block in Cambay basin which we had got in with an operator Naftogaz, which ran into some rough weather. We expect that block to be revalidated and it is already an oil block which is already found. It is a discovered block and it will move to the appraisal or phase 2 of the program immediately thereafter if once it is revived.

The last on the list is the discovered small field ground cluster that we won, called B9 Cluster which is also adjoining to our earlier Mumbai block. One of the boundaries is coinciding with that and we are currently progressing to make a full field development plan for the same. Just to appraise the investors, discovered small field ground was round in which already discovered field, in which the hydrocarbons had already been proven were auctioned by the Government of India, and we had won this block which was of strategic importance, because it was adjoining one of our existing blocks and we believe that this will go on stream and start production in the year FY 2019-20.

With regards to our announcement of the NBFC, I would want to appraise the investors that the application has been filed with RBI and it is under their active consideration and we expect to get the approval in next quarter. With that, I would request Mr. Akhil Jindal to take you through the financials of the company.

**Akhil Jindal:**

Good afternoon, everyone. Basically, the numbers were announced yesterday, so I am sure many of you would have got a chance to go through it. Without spending much time on each item, I just would highlight few critical items. The efforts taken by the company in the previous years are showing results. So clearly, there has been a significant growth on the topline, 260% on a YoY basis between the last year, same quarter versus this year same quarter. So, we are almost doing 200 crore average run rate now as a second quarter comparison of last year which was 54 crores. Significant jump on the EBITDA side, 436% YoY growth. So this quarter, we did 43 crore versus 8 crores that we did last year and clearly that

is also reflecting in the bottom-line. So the cash PAT which was just one million last year for the Q2 FY17 is roughly around 27.4 crores in this quarter.

So from a balance sheet side, again the numbers are very much there in our release, but I would like to highlight some critical numbers which are of significance to all of us. Clearly, the net worth has gone up by 50 odd crores and this comparison that we are doing is between March 17 and September 17. So 6 months difference you will see in the balance sheet that we are discussing. More importantly if you see despite making large investments in our various businesses including the highway business, road business, our net debt number which is one number that we track very closely have not changed much. It was -986 crores on 31<sup>st</sup> March, it is now -880 crores. So that means there has been a change of 106 crores which has been largely the effect of the current liabilities that were there in the books as on March 17 at 140 odd crores, our net current asset was -141 crores in 31<sup>st</sup> March which is now positive 22 crores. So clearly, the difference between the net debt that we are seeing as 106 crores, there has been an improvement in the net current asset for 163 crores. So most of them have gone into paying the liabilities and building up the current assets of the company.

So from this effect, if you see we have still a very healthy cash balance at the company. We have almost 944 crores as cash and cash equivalent as on 30<sup>th</sup> September 2017 against 1,066 in the March quarter. It is not much of the difference, so that with the cash of the company is also being preserved for the future use and for the new projects that are coming up. So with this, I think these were the two important points that I thought are important to discuss.

Just a last comment on the performance in terms of the segmental reporting, if you see now the infra business is showing traction and there is a significant improvement in the infra revenues. So EBIT of the infra which was there last quarter as Rs. 239 mn is practically same as Rs. 233 mn, but in percentage terms, it has gone up by almost 3% from 11.1% to 14.7% . On a half year basis, last year the EBIT margin was -9.8% because obviously the business that we were doing were not that profitable it was more a leftover of the past orders that we have taken, but the new order that we have taken are clearly showing good results and as a result, our EBIT margin in the H1 has been 12.6% for pure infra alone.

So with this, I pass on the floor for any questions that the investors, analysts may have, the team is here to answer.

**Moderator:** Sure sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

**Giriraj Daga:** Congrats on a quite a good performance in terms of ramp up of the Delhi-Meerut project. Couple of questions and clarifications. First, the entire infrastructure revenue what we are showing is the EPC revenue of Delhi-Meerut. Is that right?

- Sandeep Garg:** No, it is not completely EPC revenue of Delhi-Meerut. It also includes the small legacy projects of EPC and some BOT revenue. So in totality may be at a consol level about 15 crores.
- Giriraj Daga:** So if you can give the breakup that would be great sir like as the total revenue what we have. Out of that, you meant to say 15 crores was others and 358 crores was Delhi-Meerut EPC?
- Sandeep Garg:** 138 crores is to be precise EPC revenue of Delhi-Meerut project.
- Giriraj Daga:** Second quarter and first half?
- Sandeep Garg:** First half, it was about 50 crores more. So exact number I can give you, 198 crores.
- Giriraj Daga:** And what kind of margins we are booking on that because obviously if I look at the blended margins, we are sub 10% on that?
- Sandeep Garg:** Yes, I have been giving the guidance in past the EPC margins are anywhere between 10% to 15% depending upon project to project.
- Giriraj Daga:** My second question is related to like we are about to complete this project ahead of the time. So what is like business arrangement early completion bonus, how much we are expecting? That is first thing. Second is that when we will complete the project? How will be the next 15 years, it will start from the day when you complete the project. From there 15 years what calculation we start, how is that modus operandi?
- Sandeep Garg:** So the answer to the second part of the question first. The 15 years start from the date of COD which is the date when the project is deemed to be completed. Secondly, you are right there is a bonus provision in the concession agreement which says for every one month ahead of schedule or prorata after one month, 0.5% of the 60% of the contract value will be the per month bonus.
- Giriraj Daga:** Okay, I understood for per month, then you can calculate. What is the bid book sir in terms of HAM and TOT as of now and second, we had written in our PPT that our oil and gas investment is about 5 billion. So that is what we have done so far or that is our share and or that is the total investment that we will make on oil and gas?
- Sandeep Garg:** On the bid book,. Currently, we have an order book of backlog of around 3,500 crores. There are no open bids. We are targeting 6 bids which are lined up for the November-December bidding stage.
- Giriraj Daga:** And amount wise if you can give?
- Sandeep Garg:** Somewhere around about 8,000 crores.

- Giriraj Daga:** And second investment in oil and gas?
- Akhil Jindal:** There is a current investment as on date, 30<sup>th</sup> September. That is the total investment made by the company in all this oil and gas blocks that we just mentioned in our opening commentary.
- Giriraj Daga:** And how much you expect more for the next 1.5 years till the time we start production?
- Sandeep Garg:** We have allocated 200 crores over the future business in oil and gas.
- Giriraj Daga:** And that is just to confirm that is our share of investment?
- Sandeep Garg:** Our share of investment in E&P. I want to add to what Akhil said is although we have invested 500 crores till now, on the book we have much lesser value of investment. So, it will be close to 200 crores.
- Giriraj Daga:** What technicality we should be knowing for that?
- Sandeep Garg:** There was certain projects overseas, that were surrendered, we provided for that.
- Akhil Jindal:** That was written back long back. It is our strive to recover the entire investments through the new commercial finds, but the old oil and gas assets which were there in let us say overseas which were not fruitful, they were written off much earlier in the previous years.
- Giriraj Daga:** So for this time, our investment is only 2 billion so far.
- Akhil Jindal:** As of now, the current investment looking into the books is around 200 crores.
- Moderator:** Thank you. We take the next question from the line of Nirav Shah from GeeCee Investment. Please go ahead.
- Nirav Shah:** What will be our equity commitment for this year because a lot of financial closure will happen in November to March, say Aunta-Simaria and one MBL project and the second one also. So what is the equity outgo of the commitment that we will make to these projects?
- Sandeep Garg:** Commitment to these projects is in the range of 12% of the contracted values. So, these are about 3,200 crores worth of commitment we will be investing.
- Akhil Jindal:** But 50% will be invested upfront. So in this year, I guess our total outgo will not be more than 100, between 100 and 150 crores. Delhi-Meerut is anyway fully funded, so there we do not have to worry about. But for the balance project which will be there within this financial year up till March, I think the maximum amount would be in the range of 150 crores.

- Nirav Shah:** So the balance close to 230 crores will happen in FY19 only considering our fast pace of execution?
- Akhil Jindal:** That is right.
- Nirav Shah:** And just to recap execution in Aunta-Simaria and one MBL project will be reflected in the Q4 numbers on the EPC front?
- Sandeep Garg:** We expect one of the projects of MBL starting to move and contributing to the revenue in Q3. However, we expect of the other two projects to of course contribute in Q4.
- Nirav Shah:** But in Q3, will there be any margin recognition, will we reach a threshold or it will be just....
- Sandeep Garg:** Depending upon when this happens, we will have to take a call on it. So we do not know as of now because that is something which is in the control of NHA. So if we do get the appointed date by Middle of November, we expect that we will reach the threshold of revenue recognition.
- Nirav Shah:** And any outgo on the NBFC will happen in FY19 only or any portion you expect in FY18 of our 350 crores commitment?
- Akhil Jindal:** We answered that partly of that will happen in this year only because obviously when the project starts before getting the disbursements from the bank, we at least put 50% of equity.
- Nirav Shah:** I am talking about the NBFC, sorry.
- Akhil Jindal:** So NBFC is I think not in the Q3 for sure, a part may come in Q4, but a small amount.
- Moderator:** Thank you. We take the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, regarding 70% land, so this is in which project, the Chutmalpur-Ganeshpur or the second one?
- Sandeep Garg:** It is in the GSY, this is Gagalheri-Saharanpur-Yamunanagar.
- Shravan Shah:** So you expect that maybe in next one month, remaining 9%-10% will be there. So we can get the appointed date and we can start the execution.
- Sandeep Garg:** That is our endeavor to get it .
- Shravan Shah:** And regarding the second project, do you think that by FY18 we can get the 80% land or are we thinking of even cancelling the project?

**Sandeep Garg:** No, we are not thinking of cancelling the project. We surely believe that it will be available to us by January 2018 if not earlier than that.

**Shravan Shah:** So are you seeing any kind of a traction on ground or do you have any interaction with the state authorities that the land is getting acquired?

**Sandeep Garg:** The land is already paid for substantially. There are disputes on the amount to be dispersed and clearance of forest which is holding it down. It is not just purely about disbursement of the funds. So it is just a technical issue which is holding it down. So we will believe that the solutions will come in next 45 to 60 days.

**Shravan Shah:** And sir as a standalone, how much in one project are we eligible to bid particularly in road?

**Sandeep Garg:** About 1000 crores, we can bid on our own, qualification this year. Next year, we probably will be able to bid up to about 1800 crores.

**Shravan Shah:** And this year in terms of the orders, new inflow we are targeting or 3,000-4,000 crores?

**Sandeep Garg:** We would want to book not more than 2, but at least one project will be in this financial year additionally.

**Shravan Shah:** So one project, shall I understand by 1,000 crores?

**Sandeep Garg:** Anything between 1,000 to 1,500 crores is what we have thought it would be.

**Shravan Shah:** And next year, how much are we targeting?

**Sandeep Garg:** We expect about every quarter one project, average size of about 1,250 crores or thereabouts.

**Shravan Shah:** So close to around 5,000 crores are we targeting in FY19?

**Sandeep Garg:** That is correct.

**Shravan Shah:** And sir if you can help me in terms of the breakup of this 3,500 crores order book, then it would be great.

**Sandeep Garg:** The order book, the Chutmalpur-Ganeshpur project is valued at 942 crores. The Gagalheri-Saharanpur-Yamunanagar is at 1,185 crores and Aunta-Simaria is 1,161 crores.

**Shravan Shah:** And with the remaining value of Delhi-Meerut?

**Sandeep Garg:** Would be in the ranges of about 300 crores.



**Shravan Shah:** And in terms of though we are doing well in terms of the early executing but we are relying in terms of the subcontracting. So are there any plan that we can do more CAPEX and going forward we can do the internal execution so that we may have a better EBITDA margin?

**Sandeep Garg:** We as a business took a decision that we are not going to self-execute the projects, we want to stay as a developer and not as a contractor. The decision was based on very simple principle of that the skillset requirement for a developer are entirely different than those of a contractor and we are building the skillsets of a developer. Secondly, there are enough EPC contractors available in the market which gives us the flexibility to use the strengths of those contractors in various geographies and various kinds of projects, rather than limiting us to our ability and our core confidence of doing projects in a particular geography or a particular kind. So we do not contemplate at this point in time, self execution.

**Shravan Shah:** So in terms of the CAPEX on standalone, then there will be a CAPEX would be very minimal?

**Sandeep Garg:** That is true.

**Shravan Shah:** And have you finalized the contractors for all this definitely Delhi-Meerut definitely would be there but for remaining 3 have you finalized or...?

**Sandeep Garg:** For the two projects in Uttar Pradesh, we have already finalized the subcontractors, for the Aunta-Simaria, we would be finalizing shortly.

**Shravan Shah:** Okay. Can you share the name?

**Sandeep Garg:** Sorry, I don't think so that would be appropriate.

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

**Gautam Bahal:** Congrats on the continued good performance on Delhi-Meerut, it is very impressive. Sir, I had one broad question and then a specific one. The broad question is any comments or thoughts on the recent government announcements on Bharatmala and the CAPEX thereof and the opportunities for us in that sense?

**Sandeep Garg:** Obviously, it is a great news for the industry at a large and since we are part of the industry it is a great news for us as, well that there is going to be a substantial work. So there will be players who will select what they want to pick up rather than have a mad rush for picking up whatever is available on the plate. So we believe that the competition would ease off going forward. Such a large magnitude of work unfolding would be very good for the industry at large. Being a strong player that we are with the strong balance sheet, it will also allow us to farm in or get into bids which the weaker members may win and will also kind of an opportunity for us. So this is what we believe.

**Gautam Bahal:** And in Bharatmala specifically, do you envisage HAM projects also coming on, will that be mostly EPC you think, any thoughts on that?

**Sandeep Garg:** I think the way things are, we expect the EPC and the HAM to be going hand in hand. There will be about 50% of the projects will be go on EPC and 50% on HAM. As you must have read that for the money that is invested for every EPC projects with the same amount, the government can do 2.5 projects on HAM projects. So obviously with this kind of a magnitude and holding, there is definitely going to be a greater push for HAM projects than for EPC.

**Gautam Bahal:** Okay. That explains it. Sir, the more specific question is I think in a TV interview yesterday, you mentioned to one of the channels that our FY18 topline you think will be around 1,200 crores. Is my understanding correct, I am not sure if you are talking about FY18 or FY19? Was it FY18?

**Sandeep Garg:** That is FY18.

**Gautam Bahal:** And in the first half as, Mr. Jindal was saying earlier the margins have been very robust. I think the first half our EBITDA margins have been 20% or so, is that sustainable for the whole year?

**Sandeep Garg:** The model remains unchanged. That is the primary driver for us. All our projects are in the same range as far as the margins are concerned.

**Gautam Bahal:** Okay and sir the last one is that FY18 if we say is Rs. 1,200 Crs approximately. FY19, could you give us a sense, I think in the past you said about 30% on top of that, right, would be realistic?

**Sandeep Garg:** Given that we have this much of an order book, we definitely believe that it will be 30% plus growth on revenue side.

**Gautam Bahal:** And on FY19, in the execution process we expect run rate projects will be about 4 or 5 in FY19, is that correct?

**Sandeep Garg:** That is correct.

**Gautam Bahal:** Okay. The last one sir, I understand to get a sense of the margins here because in EPC purely you are saying is 10%-15% but the blended margin is obviously a bit higher for various other things. So when we look out FY19 onwards, should we expect a margin closure to 20% or closure to 15%?

**Sandeep Garg:** On the segmental basis, the margins should remain close to what the segment is currently reporting in the same ranges, because the funds will get deployed into the business rather than on treasury mode. We expect these returns on the investments to be always better as well.

**Moderator:** Thank you. We will take the next question from the line of Sagar Parekh from Deep Finance. Please go ahead.

**Sagar Parekh:** Sir, my first question if I adjust your other income below the line, your actual EBITDA for Q2 comes to about 9 crores which is about 6% of your topline which was also similarly the case in Q1 as well and considering that these two quarters were the major quarters for execution of Delhi-Meerut, how should we look at your margins because you mentioned that 10% to 15% margins for EPC whereas right now we are reporting about 6% to 6.5%?

**Sandeep Garg:** I think what has been done here in your maths, is that two things, number one, all the overheads of the company are being apportioned to the business and you are just taking that the treasury income is free of cost income. So that is practically may not be appropriate comparison. Secondly, I think the way we need to look at it is that the business is gearing up to do much larger turnover going forward and those costs are getting build up as we build the company. So those comparisons that you are doing of trying to take out the treasury income separately and possibly you are also taking the depreciation into consideration which is not apportionable to the hybrid annuity projects which is primarily coming from my BOT revenues. As I said, that is something which is contributing to about 7-8 crores in this quarter because the depreciation is much higher. So these numbers that you are trying to deduce may not actually be telling the true story.

**Sagar Parekh:** Sir, I am not counting the depreciation. I am just counting the EPC topline which primarily is just the Delhi-Meerut topline along with some portion as you mentioned of the legacy order book and I am just taking the cost which is because the treasury income anyways the cash will get deployed...

**Sandeep Garg:** I think the right way to look at it would be, if you were to do it, you go to the segmental reporting and If you see the infra revenue, it is 158.7 crores for the Q2 and the EBIT margins for the infra business are 233%. So which is giving you a 14.7% segmental profit.

**Sagar Parekh:** Yeah. But that 233 includes some bit of other income as well which is the treasury income, right?

**Akhil Jindal:** No. That is what we are trying to say.

**Sandeep Garg:** The treasury income is separate.

**Akhil Jindal:** See, the blended EBITDA is 22.4 if you see for the company as a whole. So when we see 22.4 for the company as a whole that includes the treasury income. For the segmental reporting this is only the pure business income.

**Sagar Parekh:** And the second question is, is there a back to back arrangement with the contractor for the bonus, so once you receive it from NHAI is there a back to back arrangement with our subcontractor?

**Sandeep Garg:** Yes, they are aligned.

**Sagar Parekh:** Okay. So we will not have anything in our P&L account once we receive the product?

**Sandeep Garg:** We will have this in our P&L account. I would want to refrain from commenting upon how the sharing happens between us and the subcontractor, but there is a sharing mechanism **Sagar Parekh:** Okay. So on an average can we assume about 50% will flow through our P&L or 100% will flow through our P&L and then there will be some, the others will flow through some expense. How do we look at it?

**Sandeep Garg:** There will be a revenue in the base cost. So there is nothing else we can do by practically that is what my finance guy tells me.

**Sagar Parekh:** Sir my third question, on your current operational BOT projects, what is the current BOT revenue that we are generating and how do we look at it, the 6 operational BOT projects?

**Sandeep Garg:** Sometimes around about 7 crores to 8 crores per quarter is what was the current revenue generation. It is very marginal.

**Sagar Parekh:** And this will probably be more or less at the same level than 7 crores to 8 crores per quarter?

**Sandeep Garg:** Actually it will drop off because couple of projects will drop off in 2018. So it is going to reduce.

**Sagar Parekh:** And the total investment in all these 5 to 6 projects is about 120 odd crores, am I right?

**Sandeep Garg:** At this point in time about 107 odd crores.

**Akhil Jindal:** Without Dewas Water, it is around 51 crores.

**Sandeep Garg:** So in the road projects is only 51 crores.

**Sagar Parekh:** And Dewas Water is about another 50?

**Sandeep Garg:** Yes, which I talked about. It is already restructured. So it will get subsumed in the new project.

**Sagar Parekh:** Okay. Got it.

- Moderator:** Thank you. We will take the next question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.
- Dhananjay Mishra:** Sir, what is our equity of commitment in two of the MBL projects. Out of 250 crores entire sponsor commitment would be done by ourselves or MBL will also contribute 50%?
- Sandeep Garg:** So, the way concession suggests that certain contributions need to come from the 51% holder. So the structuring is majority of the money will come from us, there will be a very limited equity that will come in from MBL.
- Dhananjay Mishra:** Because they are not in reason to pay anything this moment because they are already in NCLT. And the agreement also mentioned that we have auctioned to buy the remaining 51% or 24 crores.
- Sandeep Garg:** Yes.
- Dhananjay Mishra:** So, is it likely that, I mean possibility is more that we will acquire the remaining 51%?
- Sandeep Garg:** Subject to the approval of NHAI, it will be our endeavor to acquire that equity as well.
- Dhananjay Mishra:** And this entire project will be done in next two years, right?
- Sandeep Garg:** That is correct.
- Dhananjay Mishra:** So this 2,200 crores of revenue will come as EPC for us in the next two years, right?
- Sandeep Garg:** Yes, say about 2000 crores because some expenses are at the SPV level. So I would suggest that we will count.
- Dhananjay Mishra:** And sir the money be paid about 24 crores, what MBL have invested till date before this handed over to us. I mean they had any expenses there or only that we did for this project?
- Sandeep Garg:** I am sure they had some expenses. They have to maintain the road for some time and they have been performance bound so there are expenses on this side. But it is not relevant for us at this point in time because we have acquired the asset as a whole at a particular cost.
- Dhananjay Mishra:** And margin we can maintain about 10% to 12% in this project?
- Sandeep Garg:** Surely. We would not have entered without protecting our margin.
- Moderator:** Thank you. We will take the next question from the line of Varun S from Mentor Capital. Please go ahead.

**Varun S:** Sir, I wanted to ask you some questions regarding NBFC subject. When can we have to expect to have that RBI approval, assume the third quarter or the fourth quarter?

**Akhil Jindal:** I think all the process work is going on. All the information has been submitted to RBI and clearly there are some more time that they want to have, before approval. So I think we feel that with all the information fully submitted to them, now the decision should come quite rapidly. In that sense, I think maximum of 90 days from now is what we feel as the outer limit.

**Varun S:** So the operation for the same would be in FY19, starting will be FY19, right?

**Akhil Jindal:** That is right. it should start technically in the Q4 a little bit but effectively in the FY19, starting April '18.

**Varun S:** Can we have some expected loan book size or margins like that?

**Akhil Jindal:** I think too early to say about this. So we would refrain from making any suggestion on that. Once the RBI approval comes and the management team comes, I think that would be the right time for us to comment on it.

**Varun S:** So it would be better to expect the operation from next year?

**Akhil Jindal:** That is right.

**Moderator:** Thank you. We will take the follow up question from the line of Shravan Shah from Dolat Capital. Please go ahead.

**Shravan Shah:** Sir, regarding this other income that is particularly treasury income, so going forward as we keep on investing in HAM project in the form of equity, so is it fair to assume that this other income is continuing to decline?

**Akhil Jindal:** Well, the decline will also happen because the interest rates have come down, so clearly the interest rates are much lesser than what it was earlier. So the treasury yields have come down. So that is one reason that you will see going forward. But more than that it would be our endeavor to maintain good cash balance in the company. So the earnings that will come through all those EPC work that we would be doing and the investment, there would be a balance. So mostly the other income will continue to be there. There is a quantum may come down but otherwise before the NBFC investments and other thing, at least for the near foreseeable future you will see similar returns.

**Shravan Shah:** So particularly in FY19, if once our NBFC starts then this can may be reduce by 70%-80%, the other income for full year?

- Sandeep Garg:** Let me add something to what Akhil said. The way we want to consider this is, that treasury income is yielding a particular rate of return and this money is getting invested into an equity of the SPV where the returns assured by NHAI are higher than the current equity returns. So even if the income will go down as a treasury income, it will get added as a return on the investments made in the SPVs. So I don't think that the overall number will reduce, maybe the classification will change.
- Shravan Shah:** No sir. I am trying, because once we from the investor perspective, once you invest equity in a HAM project then definitely one as an investor has to value that SPV separately. So whatever you put, so that will be separately valued. But on the standalone when we value a business on standalone, we need to from that angle I am asking is, if this other income goes down, then definitely FY19 and then maybe FY20 the PAT would be. So on a recurring basis, my aspect is from the recurring side, FY19-FY20 how should we look at? Can we think of even at least 40-50 crores would be there in at least FY19 or maybe FY20, post all these investments will be done.
- Sandeep Garg:** So taking on from what Akhil said, if you would see our investments in our profit margins on EPC are more or less balanced. So the investment are not likely to substantially go down as the business evolves. That is possibly what we can say because of the hybrid annuity project. However, there will be investments in NBFC, which NBFC will start yielding results on.
- Shravan Shah:** And sir, the existing BOT toll projects in terms of cash profit are we making or if you can quantify how much cash profit are we making?
- Sandeep Garg:** It is a very insignificant number in the scheme of things, but we are practically making very little cash profit at this point in time, on an overall good level.
- Shravan Shah:** Or anything on plan in terms of divesting the existing assets?
- Sandeep Garg:** There is not enough tail period in most of the road projects, except one. So the question of divestment does not really arise. As I said, the major projects are falling off in 2018.
- Shravan Shah:** And regarding Dewas, post restructuring, right now we invested 50 crores. So post that how much would be the equity to be invested?
- Sandeep Garg:** We possibly need to invest about 15-20 crores of further equity into the business.
- Moderator:** Thank you. We will take the follow up question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** Just a few clarification, you said EPC revenue is 138 crores in second quarter and 198 crores for the first half?

- Sandeep Garg:** Yes. Quarter one was 198 from Delhi-Meerut, the revenues are 198 and 138.
- Giriraj Daga:** Okay, understood. 198 plus 138 for the first half.
- Sandeep Garg:** That is correct.
- Giriraj Daga:** Okay. On the legacy BOT, are you making any cash loss there, means any loss there over the margins?
- Sandeep Garg:** No. It is just breakeven.
- Giriraj Daga:** And the same goes with the BOT also. It is more or less like cash breakeven there also.
- Sandeep Garg:** Yes.
- Giriraj Daga:** Okay, understood. And in terms of when we say our order book, we are taking the complete bid book as the order book?
- Sandeep Garg:** No. We are taking the EPC contract as the order book.
- Giriraj Daga:** Yeah. So the time when we gain the 3500 crores breakup, what we saw is the complete like...
- Sandeep Garg:** The way it works is, these 3 projects itself will add up to about 3400 crores with inflation because there is an indexation these numbers would be somewhere around 3,800 crores and we have some order backlog from Delhi-Meerut. So the net EPC which we are talking about at the project level these values will be much higher; however, at the EPC level that will be close to 3,500 crores.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.
- Sandeep Garg:** Thank you everyone for being on this call. We look forward to your continued support as an investor in Welspun Enterprises. It will be our endeavor to create value for you. We value your valuable time and continued support of the company. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Welspun Enterprises that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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