"Welspun Enterprises Limited Q3 FY-18 Earnings Conference Call"

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MANAGEMENT:	**MR. SANDEEP GARG – MANAGING DIRECTOR; WELSPUN ENTERPRISES LIMITED** **MR. AKHIL JINDAL – GROUP CFO & HEAD STRATEGY; WELSPUN GROUP** **MR. SHRINIWAS KARGUTKAR – CHIEF FINANCIAL OFFICER; WELSPUN ENTERPRISES LIMITED**
MODERATOR:	**MR. SHRAVAN SHAH – DOLAT CAPITAL**

Moderator: Ladies and gentlemen good day and welcome to the Welspun Enterprises Limited Q3 FY18 Earnings Conference Call hosted by Dolat Capital. As a remainder, 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shravan Shah from Dolat Capital. Thank you and over to you sir.

Shravan Shah: Thank you Stanford. Good morning everyone I would like to welcome you all for Q3 FY 18 results and business outlook conference call of Welspun Enterprises Limited. We thank the management for giving us the opportunity to host the call. From the management we have Mr. Sandeep Garg – Managing Director, Mr. Akhil Jindal – Group CFO and Head Strategy and Mr. Shriniwas Kargutkar – CFO. Without wasting much time, I would now handover the floor to the management for their opening remarks and then we can have a Q&A. Over to you sir.

Sandeep Garg: Thank you. Good morning to everyone, this is Sandeep Garg. Here we have Mr. Akhil Jindal, Mr. Shriniwas Kargutkar, Mr. Lalit Jain, Mr. Kevin Daftary and Mr. Harish Venkateswaran. It is a pleasure for me to give you the current status of our business update.

On the infra business side, the current portfolio we have 5 Hybrid Annuity Model (HAM) projects of about Rs. 5,100 crores. And an order book of Rs. 4,100 crores of EPC due to these HAM projects.

The 5 projects that we are talking about, the first project that we won was Delhi- Meerut Expressway Package 1. I am happy to inform you that till 31st December 2017 we achieved a progress of about 86% that is in about 13 months. So we have achieved 86% progress on our project which is scheduled by NHAI for 30 months. So, we are way ahead of our progress schedule. We expect the project to be dedicated to the Nation anytime after 15th of March 2018. We expect the COD to be declared within this month as well. The other project which we have got the appointed date for is the Gagalheri-Saharanpur-Yamunanagar. We got the appointed date for this project as 3rd February 2018 and the execution is in full swing. The third project that we have under the hybrid annuity project model is Chutmalpur-Ganeshpur and Roorkee-Chutmalpur-Gagalheri. The appointed date of this project is yet awaited, although the financial closure has been completed. We expect the appointed date to be declared by end of February 2018. The contractor to execute the project is already mobilized on-site and hence as soon as NHAI is in a position to declare the appointed date within February 2018, we would start the work full swing. The fourth project that we have from the infra side under hybrid annuity is Aunta-Simaria. The concession agreement for this has been signed and the financial closure is in progress. We expect the appointed date to be in the beginning of Q1FY19. The major sub contractor for EPC has already been finalized for it and is under mobilization so we would start the work as soon as the appointed date is granted. The last project under the hybrid annuity model is the Chikali-Tarsod which we recently acquired. The Chikali-Tarsod we have acquired a 49% from Vishvaraj Group in January 2018. We are currently working on the financial closure for same and we expect the financial closure to take place within this quarter and the appointed date to start from in the Q1FY19. The other important information that I would want to share with the investors is about this Dewas Water BOT project. We have been able to sign the concession agreement for the modified project on 9th January 2018. The financial closure is in progress and the construction is expected to start in Q1FY19. So, this is the update on the infra side of the business.

On the oil and gas side of the business, as you may recall that we are in a joint venture in the oil and gas exploration and production with Adani with 35% stake of Welspun Enterprises. There are 5 relevant blocks; 2 in Kutch, 1 in Mumbai and 1 is on hold and 1 is discovered small field in the Mumbai High. 4 projects out of these 5 are already are assigned and are in various stages of development. The Kutch blocks are in the stage of appraisal. The current status is that ONGC has in a nearby block struck gas in a deeper horizon and since this additional information has come in we are trying to revisit our strategy on drilling the appraisal well and contemplating going deeper which will take about additional 9 months to fructify once we have established the revised conditions under which we would want to drill this appraisal well. So that is for the Kutch 2 blocks. The other block which is of interest is discovered small field which won in the round 2016. The status is that we are in the field development plan; we are building up the field development plan for the same and are expected to submit the same by March to DGH for their review. As you may recall, this is under our regime called revenue sharing regime and hence no approvals are required from DGH and we can proceed with the project immediately thereafter. We expect this block to go on stream in the FY 19-FY 20. It should start producing because it is already a discovered block. The 4th block that is of interest is the Mumbai block. The Mumbai block is an adjoining block to the B9 Cluster that we have already won under the discovered small field round. The block is under exploration Phase-and we are trying to enter into Phase-2. The DGH and the MoPNG are in the process of finalizing the process of entering into the Phase-2 of the exploration program. We hope that this will be finalized within this quarter. We would want to take up this Phase-2 of exploration of the Mumbai block alongside with this B9 block which will give us a synergistic play because these two blocks are absolutely adjoining. The last block of interest on the oil and gas side is the Palej block. It is an oil discovery on on-land, however, it is under dispute because a termination notice was issued by the Ministry/DGH because of the default by the operator Naftogaz. We have gone back to the authorities saying that under the provisions for the PSC, we are entitled to take over this PI. We are quite hopeful that within this quarter this matter would be resolved and this 10% PI which Naftogaz was holding would be transferred to the existing PI holder that is Adani and Welspun and we should be in a position to go ahead and do the next program on that block as well.

I would also want to share with you the outlook as we see on the infra side of the business as well as oil and gas side of the business. The current situation is that NHAI has already come out with about 95% of hybrid annuity model projects which should be decided in the next 3 to 6 months. The value of all these projects put together is approximately Rs. 1 lakh crores. As we have been maintaining, we would continue to bid selectively for these projects and we will participate in the BharatMala program of NHAI. Currently we have bid out 5 projects, totaling to about Rs. 4,800 crores for which the bids are yet to be opened. We will continue to demonstrate our philosophy of selective bidding operational excellence and respect of capital. These will be the hallmarks of our bidding and execution going forward in the infra space. As far as oil and gas is concerned, as most of you may have noticed that the oil and gas industry is resurgent, the pricing of the petroleum products is on the upside. So the viability of the blocks has improved, as things evolve. If the appraisal programs prove that these are commercially viable blocks. The possibility of the same is very higher and the value creation should be better.

With this I would want to hand over the phone to Mr. Akhil Jindal to take you through the financials of the company. Thank you.

Akhil Jindal: Good morning everyone. Before I start on the financial numbers of this quarter, I just want to make one small suggestion. We are restricting our commentary today on the stand-alone number and this is primarily because in the consol numbers we see there are a lot of IndAS related accounting which comes up which are not a true reflection of the business and that is why we are urging you to look at the stand-alone number. And if required, you can value the SPV separately as and when they reach to a certain size. So in that sense, the stand-alone numbers are our true reflection of the business and I am restricting our commentary on the stand-alone numbers today.

So the total income in this quarter was around Rs. 298 crores, this is more than 4 times of what we did in the corresponding quarter last year and this has been largely due to the Delhi- Meerut project that is undergoing and as Sandeep mentioned that this is at a fag end of completion. So this is the major contributor on the top line in this quarter. Similarly, the corresponding EBITDA of this quarter had also gone up by almost 355% to Rs. 46 crores on the reported number. I will give you a break up on this EBITDA in a little while but from a reported number perspective we reported Rs. 10.2 crores in the previous year same quarter, which has gone up to Rs. 46.2 crores. Overall, on the infra segment, which is our major driver which is I would say 90 to 95% of the business, the overall revenue was Rs. 299 crores and our EBIT in that infra business was Rs. 34.9 crores which is also reported in one of the segmental reporting that you might have seen. So the margin stands on the EPC side, EBIT side was 11.7%. If I look at the EBITDA for the EPC business for the corresponding quarter, the same on the EBITDA side our EPC margin stands at 13.4% and for the 9 months it is 14.3% on a total of Rs. 93.7 crores as the EBITDA income for the 9 months. So basically, we are seeing an up surge in the business, we are seeing the projects that we have taken up now getting reflected in the top line and the bottom line. And as we go along the growth capital that we have in the company which is almost Rs. 916 crores of cash that is available with us today is something that we are going to use for building of the new projects that Sandeep just mentioned and of course bidding for the further new projects. The business seems to be on a stable zone now with all the new projects coming up and we are winning these projects on our decent margin. We have always guided our investor community in terms of our margin expectations and our bidding criteria. So this is something that is sacrosanct and we are very much in the realm of those internal guidelines and I can assure you that this EBITDA numbers that we have seen on the EPC side at 13.4 and 14.3 for the entire year is something that will remain our benchmark. This, of course I will have to also tell you this is without the corporate expense. These are project level EPC margins, which is what, should maintain and as we get more and more projects the corporate overheads will be distributed into many projects. So on the reported numbers also you will see the improvement.

With this, I pass on the floor for the question and answer. Any question that you have on the balance sheet or other thing, we can let you know. But all our key indices are absolutely very, very comfortable. Our net worth is almost Rs. 1425 crores, our cash position is Rs. 916 crores so it is all comfortable and with this I pass on the floor for the question.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Sir three questions, firstly, what is the land acquisition status on the CGRG project for which the appointed date we are expecting by this month-end?

Sandeep Garg: The approximately 50% of the land has already been handed over. Another about 26% of the land the formal approval has been obtained by the Government in light of the forest section. The tree counting has been done, the amounts are being deposited by the Government and we expect once these amounts are deposited these lands will be handed over to us and we will be at somewhere around 78%, with this handing over of the land. And we expect the 2% also to come through by the encumbered lands by the month end. So we expect the appointed date to be by the end of February.

Nirav Shah: So for the 26%, you were saying it is just a formal approval that has been….

Sandeep Garg: The formal approval has already been obtained. The Government has already given the approval. It is now under the procedural side of the business.

Nirav Shah: For the possession part. It has been acquired, but not in possession?

Sandeep Garg: Yeah, it is not under possession. So there are certain payments which need to be made which is in the process right now.

Nirav Shah: And sir on the Chikali- Tarsod project what is the land acquisition status?

Sandeep Garg: I would want to put a caveat here that we have not ratified because we have not taken a position; appointed date has not taken place. However, as per NHAI they are now having more than 80% land.

Nirav Shah: So even getting appointed date doing FC and appointed date should not be a very big issue, like….

Sandeep Garg: Definitely, we don't foresee any problem because 2 projects are ajoining to it. On both sides are already have achieved the appointed date and have more than 80% of the land. So we do not foresee any problem on that project.

Nirav Shah: And sir, on oil and gas what was the investments done in FY 18 and what are we likely to do in FY 19?

Sandeep Garg: FY 18 as far as the Welspun is concerned, we have invested about Rs. 5 crores till now, most of it which has gone into B9, which we are doing field developments and some overheads of the company and the appraisal programs of the Kutch block. So these are the 2 major heads of expenses where we are incurring costs. The next year we expect at least about Rs. 100 crores to go into the business. I'm not hundred percent sure of these numbers for the next year at this point in time but my estimate is about Rs. 100 crores.

Nirav Shah: And sir, can you just give the breakup of other income between financial income and non-financial income? And sir just one request also on this if you can give this number separately in our future press releases, that would be very convenient sir?

Akhil Jindal: We will do that, certainly. In the Q3, the treasury income which is something that other income we count is 19.51 and for the 9 months it was 58.5, so this is the treasury income which is on account of the surplus cash that we have. Rest of all, you can presume is the IndAS adjustments of the provisional write back of the previous provisions. So other than that, everything else you can count as the operational income.

Nirav Shah: And sir just a final question from my side, what is the progress on Delhi-Meerut as on date?

Sandeep Garg: About 93%.

Moderator: Thank you. We take the next question from the line of Viral Shah from Emkay Global. Please go ahead.

Viral Shah: Just to start with, can I have the breakup of execution for the project wise for the quarter? I just missed that number.

Akhil Jindal: We have not shared that number earlier. Basically, you can say that most of the contribution has come from Delhi-Meerut but for a very small contribution from other projects. We will strive to give the breakup in the future quarter where different project will contribute significantly.

Viral Shah: So, going forward, what is the status on the 2 projects from MBL?

Sandeep Garg: As I said we have already achieved the appointed date for one of them in 3rd of February, the second we expect the appointed date to be given within this February month.

Viral Shah: And which are those projects are?

Sandeep Garg: One is Gagalheri-Saharanpur-Yamunanagar the other is Chutmalpur-Ganeshpur and Roorkee-Chutmalpur-Gagalheri (CGRG).

Viral Shah: What is the status for the remaining projects to achieve financial closure or they have already achieved, and execution has started?

Akhil Jindal: We are in various stages of achieving the financial closures. We expect both of them which are under financial closure to achieve the financial closure within this quarter.

Viral Shah: So basically, Q1 FY 19 is where you expect all the projects to start execution.

Akhil Jindal: 3 projects will be going on in the Q4 of this year and then 1 will taper off in Q1, which is Delhi- Meerut and in that two of it will come in.

Moderator: Thank you. We take the next question from the line of ASN Raju an individual investor. Please go ahead.

ASN Raju: Sir my simple question is, we are having Rs. 960 crores of cash, what is the net income on that cash for per year and what is the business income per year?

Akhil Jindal: Yeah, so the cash income is the treasury income is between 8.5 to 9% is what we are earning and business income, EBITDA income we have just said on the EPC side is around you can say between 12 and 14%.

ASN Raju: Altogether this year we will be getting Rs. 200 crores of profit sir? 8% means Rs. 88 crores roughly; the other is a 14% means around Rs. 190 crores. Together Rs. 170 crores will be the profit for the year?

Akhil Jindal: Yes, it should be close. The numbers should be close, we do not give the guidance on the numbers specifically, but we are close to the numbers that we are targeting. I am sorry; when you say profit you mean EBITDA right?

ASN Raju: Yes EBITDA sir, not PAT.

Akhil Jindal: Yes, just wanted to clarify.

ASN Raju: The other question is what MBL made by selling those 2 businesses? And the same with the new projects which we bought from Vishvaraj Group, what they made and what is the cost of acquisition of the project what we paid for them to buy that?

Sandeep Garg: In the project, cost of acquisition is about 2%.

ASN Raju: Is it 2%?

Sandeep Garg: Less than 2%.

ASN Raju: If you bid in next project that 2% we will directly get the project?

Sandeep Garg: That is not true and that is also true to certain extent. There are bidding costs involved, which are already into the tune of 1 to 1.5%. And since these are already, if you do the risk denominated return on the investment, probably this would make a lot of economic sense.

ASN Raju: My understanding from the last some bids is that only 8 or 9 players are there in the hybrid annuity projects. As you mentioned in your annual report that 1 trillion value works are coming in. Many of them won't get financial closure other than 4 or 5. So Welspun has a huge opportunity to bid at a higher rate.

Sandeep Garg: Mr. Raju as we said we maintain our internal yardstick for profits. We are not getting governed by what others are doing. We will continue to follow our guidelines, and if we see that there is an opportunity to improve and create more value for stakeholders, we will definitely try. But currently, our yardsticks are chosen for this year and we will continue to bid on those yardsticks.

ASN Raju: Sir my submission is that only 8 players are there who get financial closure for the new bids. Among those 8, may be 2 or 3 more than 2 or 3 can't get financial closures sir. So if 95 projects are there remaining 40- 50 projects, no one in this current scenario, construction companies won't get financial closer for those 40- 50 projects.

Sandeep Garg: We take your comment. We are monitoring the industry. We will interact with the opportunities the way we should.

Akhil Jindal: We are cognizant of the fact and we are working to get projects in our own terms where the margins are protected not just for the top line. So….

ASN Raju: Am I wrong sir, in my view, what the industry is happening?

Sandeep Garg: I can't comment Mr. Raju on other company's ability. So we will refrain from answering it.

ASN Raju: That will be an opportunity for Welspun…..

Sandeep Garg: We are cognizant of the opportunity and we will seize the opportunity in the best manner possible. However, we will refrain from commenting on any other company's ability or the industry's ability to respond to this opportunity.

ASN Raju: With the current order book, what is our 2019 March annual turnover can be sir?

Akhil Jindal: Currently we have an order book of about Rs. 4000 crores. We possibly will add few thousand crores more. So, during the first year we as you know the appointed date takes place about after the award in about 6 months time. So, we expect the current order backlog to contribute the maximum revenue in the next year. And there after some new projects will contribute for 1 or 2 quarters depending upon when they get awarded.

ASN Raju: Okay. My last question is what will be the revenue or any exit of stakes in oil business?

Sandeep Garg: Sorry, I couldn't get your question.

ASN Raju: Revenue or exit in oil business and what is the net profit in oil business sir?

Sandeep Garg: The current M&A that have taken place in oil and gas are at something like about 6.6 x, the EV has been about 6.6x the EBITDA. So that is what normally the yardstick is. So we will know once the appraisal program is complete as to what value this for that.

ASN Raju: Expectation sir?

Akhil Jindal: It will be premature Mr. Raju we will need to wait for the appraisal program to be completed.

Moderator: Thank you. We take the next question from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: I just started following the company sometime back. So please pardon me if I have some repeated questions. In the previous questions what I heard is that your treasury income amounts to around Rs. 90 crores with EPC side EBITDA margins of 12% to 14% margin range. Is that correct?

Akhil Jindal: Yes, Rs. 90 crores in the range for the entire year and Rs. 19.51 crores for this quarter.

Dhruv Agarwal: 19.51 is the treasury income for this quarter?

Akhil Jindal: For this quarter and the Rs. 90 crores figure that you mentioned was Mr Raju's response to our treasury total

Dhruv Agarwal: For the whole year. For the year as whole year.

Akhil Jindal: 9 months we have done Rs. 58.5 crores so you can extrapolate.

Dhruv Agarwal: So that would amount to around Rs. 170 crores of EBITDA for this year?

Sandeep Garg: Yes we would be close to that.

Dhruv Agarwal: So that would be consolidated EBITDA for this year, correct?

Sandeep Garg: This would be slightly better in our own appreciation because our operations are going to be larger in volume.

Dhruv Agarwal: Okay so what should be your top line for this year sir an estimate of your consolidated top line?

Sandeep Garg: Around Rs. 1100- Rs. 1200 crores.

Dhruv Agarwal: And how do you see that growing for the next 2 to 3 years? What is the CAGR we can assume?

Sandeep Garg: Next year it is going to be quite a substantial increase; we expect it to almost double up. Then balance, you would be able to give you guidance as we win the projects.

Dhruv Agarwal: And sir one thing that you said is that the majority of your top line is coming from the Delhi-Meerut expressway project which you have right now in your hand. And once that gets complete how do you see the other projects contributing to your top line?

Sandeep Garg: So as I said one project has already started throwing in revenue the second project should start throwing in the revenue by the month end and in substantial manner. Since we are fully mobilized we will be able to go to progress very quickly. Originally, whole project is available, 80% of the land is available for us to work. Fortunately for us, most of these projects have a Greenfield portion which is free of any other issues relating to diversions of traffic, etc. So we expect to progress to be very fast.

Dhruv Agarwal: And the last question is your infra business order book right now is Rs. 4100 crores. Is that correct?

Sandeep Garg: Rs. 4100 crores is our current order book.

Dhruv Agarwal: Before that, you said you have 5 HAM projects of Rs. 5000 crores book. I didn't get what those Rs. 5000 crores is.

Sandeep Garg: Total projects that we have won.

Dhruv Agarwal: The total projects that you have won?

Sandeep Garg: Yes.

Dhruv Agarwal: And Rs. 4,100 crores is the unexecuted part if I'm correct?

Sandeep Garg: That is correct.

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

G. Vivek: My question is regarding opportunity size. We have been hearing that opportunity size for the road construction sector is fantastic. But as we go through the order book other than the Delhi-Meerut expressway and the Aunta-Simaria also I think so other than we are sort of increasing our order book by buying some asset from the distressed players. So our profitability and other criteria are less in this regard also and with March coming to the floor what are the chances of new contracts being begged by us because ours is one of the few companies which is cash rich and financially very strong.

Sandeep Garg: Two parts of this question that I would want to answer. So first is that it is true that we have won directly from NHAI two contracts which is one is the Delhi-Meerut and the second is the Aunta-Simaria. And secondly, we have acquired 3 projects from the market on the stressed asset and the criteria of an acquisition is exactly the same, until and unless we meet our threshold numbers, we don't look it at; we get opportunities of acquisitions, almost every month too. So that is not something which excites us. Any projects which cannot throw up the numbers that we have benchmarked ourselves against we don't look at it then. Secondly, the upcoming projects we expect us to be successful. There is enough quantum of work. There are a limited number of players in the fray, we are going to continue to bid on our target returns and hope to get at least 2 to 3 projects between now and the current bids that are going in, and we expect at least 2 or 3 projects to be won by us.

G.Vivek: And we have made substantial investment in the oil and gas business sir, any plans of demerging that business and when can we expect some contribution to the top and bottom line from those projects sir?

Sandeep Garg: As we said 2019-2020 is our target to start producing from the discovered small fields block B9 and then we expect every year, one block to come online. We should see the returns coming in FY19-20. And as you know the oil and gas it is mostly the initial capital deployment which is during the exploration Phase-and development Phase-which is most heavy. Beyond that, the EBITDA contributions are substantial because cost of extraction is relatively very low and since 4 of our blocks are already hydrocarbon bearing, we expect the contributions to be sufficient going forward from 2019- 2020.

G. Vivek: Any plans for demerging the oil business?

Sandeep Garg: Not at this point in time.

G. Vivek: I stay close to the Delhi-Meerut expressway and I would like to congratulate you for the fantastic progress that you have made in the Phase-1 and I believe Phase-2 and Phase-3 are a pathetic stage and the contrast between the project completed by us, our company and I think Chetak and another company is really contrasting. And great work you have done, congratulations sir. Just wanted to know you have a policy of not owning that footprint and trying to outsource it to third-party contractor. So how effective are they and does it lead to loss in our profitability, lower margin if you don’t own our own equipment?

Akhil Jindal: Two things that I would leave for the investor community to think through; number one, the EPC business needs about 20% of the project value as the construction equipment investment and the construction equipment gets depreciated over 3 to 4 projects. So, in case of EPC business, it would be if we were to start doing it, it would be cash guzzling business to begin with. Number two, as we look at it because we do it, we use the best player in that area for doing the projects, they bring in an efficiency of about 3% in their operations itself. The other thing is that since we are a small nimble-feeted company our overheads will remain small. So we expect the overheads to be lowered by about 2 to 3%. Normally an EPC contractor makes about 7 to 8% profit margin so, 6% is contributed like this. I may have an additional cost of 1-1.5- 2% I don't know. However, I take it as a cost of insurance because when the risks of EPC are transferred to the company, which is best equipped to deal with it, I not only get a contractual right to a safety net I also can get insurable risks which ensure that in case something were to go wrong, the company itself will not be subjected to an uncalculated risk. Secondly, that I would want to leave a thought in the investor's mind is that when you have invested into the equipment asset heavily and it is a growing business, it is perfectly fine. However, if for some reason there is a break in the infra development for any reasons for a short duration, the value of erosions is very steep and hence as a company we have taken a view which is consistent for the international practices that the developers need to be staying away from executing EPC and EPC players need to be EPC players rather than coming into the domain of developers. So that is what our views are and we believe that we will evolve as the world has evolved and hence we are following a policy which is mostly followed in the developed world.

G. Vivek: Our construction is the work of contractor for the Delhi-Meerut expressway is they the same contractor for Gagalheri and other projects also?

Sandeep Garg: Yes, he is the same. So we are developing a relationship like a supply chain. So we will have a supply chain of our own.

G. Vivek: Very good performance, keep up the good work and just wanted to lastly have any idea about the opportunity size for our sector and how long is it expected to continue and does our financial strength give us a big edge over the competition?

Sandeep Garg: See, we generally believe that the financial strength is a strength. However, our views are that the sustainable differentiation is more by operational excellence and risk and respect for capital. So these are more sustainable than just having some cash because there have been lot many companies which may have cash. So our exercise will be to develop our USP in terms of operational excellence and respect for capital.

G. Vivek: But our financial strength is giving us an opportunity to pick and choose the project which meet our profitability criteria from the distressed assets that is for sure.

Sandeep Garg: That is for sure. So there are distressed assets which come across to us to help them out very frequently. That is true.

G. Vivek: The opportunity size is very huge in terms of both original tendering as well as the secondary purchase of order is concerned.

Sandeep Garg: That is true.

Moderator: Thank you. We take the next question from the line of Abhilasha Satale from Dalal and Broacha. Please go ahead.

Abhilasha Satale: Sir I want to understand how will we, the financing of the project like how will be our cash and debt move over a period as the other 3 projects are progressing for FY 19.

Akhil Jindal: Yeah, so basically the financing is done in a traditional manner with a debt equity of 80-20. So for a project which is let's say Rs. 1000 crores, 40% which is Rs. 400 crores come from the NHAI over a period of time. We might have to partly finance it for the short term interim period. But eventually, 40% comes from NHAI. 60% is what we need to totally finance out of which 48% comes from the bank and 12% is our own equity. So we have a healthy balance of our EPC margin and our equity going together. And in that sense of out of Rs. 1000 crores that we have, this money should be more than sufficient for us to execute all these projects that we are currently doing and also the projects that would come along over the next, let's say 12 to 18 months. It all depends upon the speed of execution, but I can tell you that our funds will never be a constant for us to get the best of the projects and to build up the best in class roads, highways that we are currently aiming on.

Abhilasha Satale: So sir prima facie that appears that our debt should be in the range of Rs. 1200- Rs. 1400 crores by the end of FY 19. Is that….

Akhil Jindal: No, so we don't take debt at the holding company level, which is an enterprise. All the debts are taken at the SPV level and they are mostly non- recourse. We do not give any kind of bank guarantee or a corporate guarantee for borrowing for these loans. So in that sense, the SPV debts will continue, but however, we have a clear aim that once these projects get complete, we would have a natural exit from these projects in a time zone, which will allow us not to even have debt at all, even in the SPV levels. So to that extent the borrowing at the Welspun level would be very limited. I would say almost nothing required at this juncture and the funds are sufficient and SPV will continue to borrow on the debt equity that I just mentioned to you, 48% coming from the banks and 12% as our own equity.

Abhilasha Satale: At consolidated level it will be seen?

Akhil Jindal: See the infra companies are never looked at a consol level because obviously these are non-recourse, they clearly start getting paid, see this is the beauty of the NHAI model is that after the project gets complete, which is let's say in 2 to 3 years we practically become like a collection agent. So we receive money from NHAI and we pay it to the banks. So that would be the SPV role. And every loan that is taken in a way directly or indirectly gets guaranteed by NHAI. So you can presume that they are as good as directly lending to NHAI. So in that sense, there is no recourse requirement and as a parent we are not exposed in that sense. During construction, of course we take a lot of precaution, lot of insurance and other thing which Sandeep just mentioned in his initial commentary that is what the support us. So consolidating debt for the infra company is where these are stand-alone basis is perhaps not been done in the industry and the parent level debt is all that counts, which at this juncture is hardly anything. I mean around Rs. 50- Rs. 60 crores is the total debt that is there at the parent level.

Abhilasha Satale: Can I know how much is operating cash flow for 9 months?

Akhil Jindal: Can I give you this answer offline?

Moderator: Thank you. We take the next question from the line of Prem Khurana from Anad Rathi. Please go ahead.

Prem Khurana: Sir, most of my questions already been answered, just a couple. So one was, basically, I mean you will be the first one to kind of finish any hybrid annuity project in India, which essentially means you would have had best experience or rather the first-hand experience with NHAI in terms of getting our payments and dealing with them. So how has the experience been, I mean whether we were able to get our payments in time especially on the grants that we were supposed to receive from them?

Sandeep Garg: We have received the all grants on time. So, there has been no delay by NHAI, NHAI has been very cooperative on all issues in terms of payment. So we are happy with our experience.

Prem Khurana: But then would it be because I mean they have limited projects under construction? Because they gave out of the number of projects, but then most of these projects took some time to be able to get financial closure, which is very rare. Most of these projects were not moving only, which is where NHAI was supposed to build some confidence in the system so that people come in or bankers come in fund these projects. So do you get to see that the NHAI would continue with this kind of practice that you have experienced with them.

Sandeep Garg: I believe this change is permanent that they would want to support the infrastructure buildup and they have recognized the quicker they fund the concessioner/contractors, quicker the infrastructure gets buildup. So I don't think this is a one of case I believe this is clearly focused on top to bottom to get the infrastructure buildup.

Prem Khurana: And sir second question would be, I mean, given the fact that we are on the verge of completing this Delhi- Meerut, so the idea would be to hold onto this asset or the idea would be to kind of monetize it? Why I asked this question is basically because you get to clear the maximum value for your shareholders once you would execute the project if the construction risk is taken care of, and after that it essentially becomes specially in case of hybrid annuity it essentially becomes a spread play. So basically, what you are getting from the NHAI and what the cost of funding is for you. So the idea would be to hold onto the asset or try and monetize and get the money back and redeploy that money back into the business and look at some more opportunities wherein you would be able to create more value for your shareholders?

Sandeep Garg: See, we will, subject to the NHAI approval we would be wanting to re-churn the equity that we have invested and there could be various models to do that. We would find the best model which will create the maximum value for our shareholders.

Prem Khurana: And just one last from my end, so basically, I was looking at the bid pipeline that exist in the system and essentially seems that most of you guys would be able to get more than enough to be able to take care of your growth opportunity. So which is there so I was wondering whether there could be a situation with the availability of quality contractors. Because I mean essentially for us it is all the more important because we are relying on outsourcing also where in for us it becomes very essential to find quality contractors to get our work done given the fact that we are talking about 95 projects to be over, over the next 3 to 6 odd months and which is where most of these guys would be able to get more than enough to take care of. So could there be situation where in we start getting issues in terms of finding quality contractors or the costs go up for us because these guys would be much more in demand and that lead us to start building our own in-house execution capabilities or in-house execution is a strictly no-no for us?

Sandeep Garg: In a business, there are no strict nos but to answer your question, we evolve as a situation evolves. However, to answer your question would there be a scarcity of contractors in India for EPC my appreciation is very simple, the EPC contractors will be enough in the country for the simple reason that while infrastructure buildup in terms of roads etc is picking up, there are lots many sectors where the construction companies are struggling to make their both ends meet. So, a lot of contractors will move from being just a contractor of building etc to infrastructure builders and as you say when the opportunity is there, the businessman will look at the opportunity and create value. Another thing that I will want you to consider even at this point in time if you look at the EPC pitch of NHAI they are mostly under the estimates. So while most of the bids on the hybrid annuity are not. So there is a definitive still or struggle in terms of EPC contractors getting the business in and they are competing very extensively with each other. So as I don't see that the saturation level for EPC contractors will come in next couple of years. As the volumes will grow, there will be a lot of contractors in the neighboring countries, who are sitting with lot of assets have no work to come and sell.

Prem Khuran: And just one last if I may, so this Dewas water projects, we have rebid for these projects so did we have an option to give it back? Because the idea is to understand whether you want to make it big in or you are open to consider other segments as well?

Sandeep Garg: We are always open to other segments. We continue to evaluate them. One of the areas that we continue to evaluate is water and that is why we entered into it. We are just looking at an opportunity to make it big.

Moderator: Thank you. We take the next question from the line of Divyata Dalal from Systematix Shares. Please go ahead.

Divyata Dalal: Most of my queries have been answered just wanted to understand more on the water project. What kind of investment would we do for this project in the next one-year?

Sandeep Garg: If the question is Dewas water we are talking about the project size per say is about Rs. 70 crores for the modified projects. However, the BOT project also gets transferred onto the new SPVs so the total project cost is about Rs. 130 crores.

Divyata Dala: And this would be spread over how many years?

Sandeep Garg: One year.

Divyata Dalal: And what kind of revenue stream can we expect from this project?

Sandeep Garg: It is about 23 MLD scheme and if the current concession were to be applied, the rate for the water would be about Rs. 46. So that is the number, I don't have the exact number. So this is what the approximate revenue generation would be.

Divyata Dalal: Right sir, coming to the consolidated revenue number which you mentioned sometime back of around Rs. 1100- Rs. 1200 crores. Does this also factor in some part of CGRG and GSY project?

Sandeep Garg: Yes it does, because they will also start throwing up revenues.

Divyata Dalal: And also does it include the early completion bonus on DME?

Sandeep Garg: Not as of now. Until and unless we get the COD we would not account for it.

Divyata Dalal: And lastly what would be the land acquisition status for Aunta- Simaria project?

Sandeep Garg: Aunta- Simaria is an 8 kms road project in a remote area. So there are no land acquisition issues per se other than minor encumbrances, which we believe that we would want to get them removed post the harvesting season.

Divyata Dalal: Okay so we can expect the construction to start in Q1 in this period?

Sandeep Garg: Yes Q1 of FY 19.

Divyata Dalal: And sir lastly, what would be our target order inflow for next year FY 19?

Sandeep Garg: Given the opportunity size it would be substantially higher than my earlier forecast. We could definitely look at an additional order book in next year of about between now and the end of March 2019 to be somewhere between Rs. 8000 crores approximately.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Sir just what to understand how many bidders where they are in the 5 HAM live bids that is ongoing?

Sandeep Garg: So one of the projects that we bided, there were 9 biders which is in the Andhra Pradesh, the Nidagatta-Mysore. In the Haryana, we bid 2 projects in one of the projects there were 7 bidders and in the other projects there were 4 bidders and in the 2 projects that we have bided in Tamil Nadu we had in one project 4 bidders including us and in the other projects 3 bidders including us. So that is the bidder scenario. So depending upon various combinations it could be anything from 3 to 8 bidders.

Nirav Shah: And what will be our pipeline that we would be submitting. Because we will be selective in the projects we cannot plain vanilla projects

Sandeep Garg: Because these projects are substantial and there is a bunching effect, we probably will bid something around Rs. 25,000 crores.

Thank you everybody for joining us on this Conference Call and with this we would want to hand it over back to Dolat Capital.

Shravan Shah: Thank you sir for giving us the opportunity to host the call and thank you all the participants.

Moderator: Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.