“Welspun Enterprises Limited Q4 FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Welspun Enterprises Limited Q4 FY23 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company which are based on beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Salil Bawa – Head Group Investor Relations for Welspun Group. Thank you and to you Sir.

Salil Bawa: Thank you Irene. Good evening to all of you. On behalf of Welspun Enterprises Limited, I welcome all of you to the Company's Q4 FY 2023 Earnings Call.

Along with me today I have Mr. Sandeep Garg – Managing Director, Welspun Enterprises Limited. I also have Mr. Akhil Jindal – Group Chief Financial Officer and Head Strategy for the group, Mr. Lalit Jain – CFO, Welspun Enterprises Limited and my colleague Siddharth in the Investor Relations Group.

We hope you have had a chance to review the "Investor Presentation" that we filed with the exchanges today albeit it was a little late apologies for the same. It is also available on the Company website.

During the discussion we may be making references to this presentation. Please do take a moment to review the Safe Harbor statement in our presentation. As usual, we will start with opening remarks by our leadership team and then we will open the floor for your questions. Once the call is over, should you have any further queries that remain unanswered post the earnings call. Please feel free to reach either me or Siddharth or our Investor Relations team SGA Partners.

With that, I would now like to hand over the floor to Mr. Garg, Managing Director Welspun Enterprise Limited. Over to you sir.

Sandeep Garg: Thank you Salil. Thank you and good evening to everyone present on the call. I welcome you to the Q4 and FY23 Earnings Call of Welspun Enterprises Limited.

Talking about the macro situation in the country:

In the past quarter the Indian economy has shown continued growth on the back of governments enabling economic policies and measures. Likewise, the thrust on infrastructure has been reinforced by the union budget. As a result, MoRTH, NHAI and Jal Shakti Ministry have ambitious targets in the current fiscal year. Altogether, the environment for the new fiscal looks extremely encouraging.

Now coming to the updates on the Company:

Firstly, let me talk about the distribution of wealth to the shareholders in line with our thought process of distribution to our shareholders. We have by way of dividend and buyback returned Rs. 8.50 per share and Rs. 235 crores respectively in this Financial Year. I repeat we have by way of dividend and buyback return Rs. 8.50 per share and Rs. 235 crores respectively in this Financial Year. So, in total we have returned more than Rs. 700 crores to our shareholders over the last five years, which translates to around Rs. 50 per share.

In the Financial Year FY23, we have clocked the highest standalone revenue in the history of the Company which stands at Rs. 2,676 crores and accordingly the highest PAT in the history of the Company stands at INR 713 crores. This year, of course, included the transaction wherein Welspun Enterprises sold 6 road assets to a marquee global investor namely Actis for an EV consideration of Rs. 6000 crores.

Just to reiterate our business model is unique with realization of profits by way of EPC business during the construction phase of these projects as well as the time of the divestment/ project monetization as and then we sell the assets. In the next growth phase, our business strategy continues to focus on twin goals. First, building a portfolio that generates high value, high margin projects backed by our asset light business model and second diversifying our portfolio to derisk ourselves from dependency on any single sub segment of infrastructure.

Coming to the operational quarter:

This best ever result in the history of the Company was clocked due to increased progress in our Varanasi Aurangabad road project and UP Jal Jeevan Mission Water project. Another good news that I would want to share is that we have received for the Mukarba Chowk Panipat road project PCOD 2 in this quarter. Coming to the other water project of substance which is Dharavi sewage treatment plant where we have been able to do initial mobilization of civil contractor and the work has commenced on ground. We have obtained the pre-construction approvals and also received 5% advance from the client, the mobilization advance from the client. We exit FY23 with a healthy order book of more than Rs. 10,000 crores which is split roughly 60 to 40 into water and road respectively. This ratio of 60 to 40 gives us the ability to grow on twin engine. Recognition of our capabilities is exhibited by the fact that 80% of our order book is external with the remaining one fifth being internally addressed.

As we have concluded our detailed scope of order of projects, I am happy to share that we have identified a significant pool of projects across water and road segments to the tune of Rs. 67,000 crores which we intend. to look at for our bidding purposes. We would remain true to our asset light model and focus on project management and engineering solutions for the assets that we target. We will continue to focus on projects which enhance and are adaptable to our capability to bid for projects with higher engineering complexity and harness our core strength of execution excellence.

Coming to the oil and gas:

We continue with our efforts for exploration and production of the oil and gas field blocks housed in the joint venture called Adani Welspun Exploration Limited. Recently, we have submitted field development plan to the authorities for the block called B-9 and are currently in process to submit the field development plan for the Block MB-OSN-2005/2 or what we call Mumbai Block. We expect this to happen within this quarter. Based on the approval of the same, we would proceed with the field development of both the blocks simultaneously. In line with our prudent approach we will commit future capital only upon clearance of the field development plan which gives us the visibility of early monetization.

During Quarter 4 on the Welspun New Energy side, we appointed Mr. Kapil Maheshwari – ED and CEO for the business who will help us identify along with his team the space in which we want to operate in the large space of sustainable energy solutions.

With this background of the quarter, I will request Akhil to take you through the financial results of the Company. Over to you, Akhil.

Akhil Jindal: Thank you Sandeep, thank you Salil and good afternoon to everyone.

We are extremely delighted to share the numbers for this quarter and for the last full financial year as Salil mentioned we could only upload it at little late in the afternoon. I am sure many of the people may not have got a chance to go through it.

Just for the sake of everyone I am touching upon the key highlights, the key numbers that are of interest to you:

Clearly the standalone performance of the quarter had been one of the highest ever in the history of Welspun Enterprise. We recorded a total income of Rs. 884 crores in the Q4 FY23 and that means almost 85% growth over the last quarter corresponding year on a YoY basis. This has also resulted in a net profit of Rs. 138 crores which has meant a growth of almost 160% in the corresponding period. This is of course had been there because of the successful execution of key projects on the roads and water segment and as Sandeep mentioned a lot of revenue growth has come from those segments.

The increase in other income has also been a large jump in this quarter and as you would remember the sales of proceeds of the assets that happened in the last week of December that money is being effectively put into treasury operation into the bonds and mutual funds and there has been a significant increase on account of this treasury income.

The EBITDA, which is a paramount important item you know we have got almost 80% growth to have reached Rs. 150 crore just in this quarter and this again shows a strong level of execution.

On a consol basis for the Company as a whole the numbers are more or less in line with the standalone numbers, but just to share some of these numbers the top line has been at around Rs. 845 crores, the corresponding top line was Rs. 476 crores last year and of course these are now excluding 6 projects which we have devastated as a part of the divestment program that got concluded in December 2022.

On an overall basis total income basis, again on a consol basis we recorded a growth of almost 85% to Rs. 916 crores as compared to Rs. 494 crores in the Q4. The EBITDA again for this quarter has been Rs. 166 crores, which was Rs. 92 crores in the previous year same quarter and which means almost 78% growth in the EBITDA number. And to sum it up the profit after tax has grown by 1.8 (2.2?) times to Rs. 142 crores on our consol basis as compared to the last previous year. And obviously the cash that we have in the Company are deployed in a most effective treasury operations on which the Company is expecting to earn in a safe and secure manner the decent amount of treasury.

And going forward I think this is our highest cash position as reflecting in the balance sheet of the Company at Rs. 1,839 crores this is of course including the sales proceed as I mentioned to you earlier.

On the full year basis, the top line had been again one of the highest in the history at Rs. 2,775 crores. The PBT was one of the highest to Rs. 760 crores and the PAT was Rs. 713 crores. This of course included an exceptional gain on account of divestment of around Rs. 527 crores which got completed in December 2022.

Before we open the floor for Q&A, I would like to state that as agreed with Actis as a part of the transaction, there were certain payments which were to be received by the Company based on the milestone payments out of the total Rs. 259 odd crores we have received around Rs. 161 crores till date and the balance is likely to be received within say Q1 a little part of it may still slip over Q2, but mostly in the Q1. In addition, as and when we will receive the permission for divestment of 51% stake in Mukarba Chowk. There is another Rs. 169 crores likely to come. So, together almost together Rs. 169 crores of the consideration plus another Rs. 120 crores of the balance money which are linked to the balance payment is something that we would like you to receive from Actis or the SPV that we have sold over the period of time and we are hoping that all of this would be achieved within this financial year. Now this is of course contingent on us getting the approval from NHAI for the 51% stake sale as I mentioned to you earlier.

This is a short summary. If you have any question, please feel free to ask us now or later as the case maybe and we can open the floor for Q&A just now. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Karan Asli from Maximal Capital. Please go ahead.

Karan Asli: So, I was actually referring to the Rs. 300 crores execution target per month that we have for FY24, how do we see that as we are on sort of the brink of the start of the year, could there be any potential sort of upward revision to that?

Sandeep Garg: I think we would stick to target of around Rs. 300 crores per month on an annualized basis. Obviously, quarter-on-quarter the run rates will change depending upon the various projects coming on and the construction work starting as well as the vagaries of weather, but on an annualized basis we would be targeting upward of 300 crores per month revenue.

Karan Asli: And in terms of margins, I think we are at around 11% right now operating margins which is somewhere around what we are comfortable, but as execution picks up could we expect from possible operating leverage to kick in maybe in the second half of the year?

Sandeep Garg: Sure. I mean that we would also expect as the volumes will grow fixed costs will be apportioned over the larger base. So, we expect the margins to be slightly better. However, this is subject to a caveat that this the commodity prices do not go out of the normal CAGR pattern that we account for when we are looking for the margins.

Karan Asli: And coming to the order book I think you mentioned in your opening comments that there is around, Rs. 17,000 crores of pipeline that we are pretty sort of looking forward to bid for, so any more details on that in terms of what sort of projects are these, are they water or road and maybe any timelines we could expect updates on the pipeline coming through?

Sandeep Garg: So, the pipeline for this Financial Year that we have right now identified is in the range of Rs. 67,000 crores. The split is practically in the ranges of Rs. 40,000 crores is approximately the road portfolio and the balance is approx. in the water. However, we are not going to bid for each one of them, we will be very selective in our buildings out of the lots that we have identified at this point in time

Karan Asli: And any sort of this Rs. 67,000 crore how much is sort of the real subsegment that we are targeting in terms of that matches our base criteria?

Sandeep Garg: Whatever we believed at the initial stages that I mean these projects are not likely to meet our return expectations we have already taken them off. Now this is a subset out of which we will then be looking at depending upon our wins and the competitive intensity that we expect, we will be identifying the projects that we will target to bid and when.

Karan Asli: And just coming to the oil and gas division of ours you mentioned that there are some progress in terms of FDP is going through any indication in terms of what P1, P2 reserves were possibly looking at in these two blocks?

Sandeep Garg: We do have an idea about these P1 and P2, but I would request to defer this question to the time when we have the FDP in place which means another quarter before I publicly declare them.

Karan Asli: And what sort of ballpark investments could we see being made in the oil and gas division because I think we have roughly around Rs. 1,500 crores of net cash, so would the bulk of that be going into this division?

Sandeep Garg: The investments can only be ascertained when we have the FDP in place and an approval there off. I would request that we get to the numbers after the FDP has been submitted and approved. The only thing that I would say is we are currently looking at two scenarios. One scenario is our own infrastructure to produce this cash and the second scenario to leverage the existing infrastructure of other players to produce this gas and liquids. So, depending upon which model works out in the FDP would the numbers change and I would request that you grant us time till the time FDP is finalized and these options are closed by us for us to give you an idea of the investments. Also, I would want to be very specific that we will be very cautious based on our returns as well as subject to the board approvals based on the returns that we will have to go back to the board about this investment proposals and if those are met with we will proceed with the field development plan.

Moderator: The next question is from Rohit Natarajan of Antique. Please go ahead.

Rohit Natarajan: My first question is on the water project UP when do you expect those tenders to be out? Are we participating in all the projects?

Sandeep Garg: Could you repeat the question because there was some cracking which happened can you repeat the question.

Rohit Natarajan: I was asking on the UP-.water tenders are we participating in all those?

Sandeep Garg: UP water tenders we are looking at them for sure because we are already mobilized in UP. We on our stand alone do not qualify for those projects pre-qualification. So, we will look at getting the right JV partners if we are to participate and if we get the right partners and we are comfortable we shall participate in these projects.

Rohit Natarajan: My second question is on the renewable front could you explain us what those plans are in the business development over there, the new CEO could also highlight what we have in store in days to come?

Sandeep Garg: Renewable plan as I said we took from the board our decision to explore this new energy options. Currently we have taken our CEO and are in the process of building the team. We have also appointed a consultant to advise us based on various state schemes as to which state is best suited for these kinds of solutions and we are interacting with the consultants to understand this business line and once we have a clarity as to where we want to play both in terms of space and the state which part of the value chain we want to capture we will make a business plan and once that is clear in our own internal approval processes we would be very happy to share with you. Right now we are in the process of only committing to the extent of initial investments into the teams and consultancy which we do not believe to be exceeding anything more than Rs. 25 crores, Rs. 30 crores at this stage.

Moderator: Thank you. The next question is Sidharth Singhal of First Water Capital. Please go ahead.

Sidharth Singhal: Sir, first I wanted to understand on the existing projects so when you say that Rs. 300 crores of execution run rate is what you are looking for in the current fiscal out of this how much are we expecting from the two HAM projects?

Sandeep Garg: So, I do not have the exact numbers in front of me as to purely from HAM projects how much we are expecting and how much we are expecting from the EPC projects and the water. However, the split between road and water is likely to be more in the ratio of 60% to 40%, 60% coming from road and 40% coming from water.

Sidharth Singhal: The reason I am asking is because if I look at the timelines that we have stated for the Varanasi project and SNRP and Aunta-Simaria I mean Rs. 300 crores seem to be on a very conservative side, so I am just trying to understand how have you come to this number and whether we are targeting to complete both the HAM projects during the current fiscal?

Sandeep Garg: We have an extension of time for the HAM project Aunta-simaria to October 2024 and we also have in principle agreement not written down in terms of agreements, but as a part of our minutes of meeting of the conciliation process the 18 month extension on Sattanathapuram from 1st of April 2023 which takes us to the October 2024 that is what the timeline available at this point in time is any other challenges notwithstanding, and we expect both of them to go to the next Financial Year for sure.

Sidharth Singhal: And could you also help me with the status on the Varanasi PC projects both the projects so I think the original timeline stated that will complete the projects by November of this year, so are we on track in terms of execution?

Sandeep Garg: There are certain points from the client that will not allow us to complete the project by November 2023. We expect this project to also go into the next fiscal year.

Sidharth Singhal: So, my second question is again a repetition of one of the previous participants question so we have set up this new subsidiary and we have also appointed a new CEO for that subsidiary, so could you at least help us in terms of which part of valuation are we planning to foray into and also if you could confirm that 25 crore, 30 crore, so are you saying the initial investment will be to the tune of Rs. 25 crores, Rs. 30 crores only in this subsidiary?

Sandeep Garg: What we are saying to you are two things and let me repeat if I am not clear and will try and make myself clear. The mandate from the board is currently to explore this area for which we are creating a team taking some consultants and exploring as to how the value chain in this whole new energy space is. Now this expense that I am talking about is the pre-expense as you would call it in a business parlance for investigating and understanding the complete value chain and the decision as to which portion of this value chain can we play in and in which territory can we play in, which state can we play in, which is the right place to set up any such business per se. Once that clarity exist we will create business plan around it which will be subjected to the board review. Once the board accepts that this is the area that you may want to play, we will start looking at any investment into the assets till the time the board does not clear we are not going to make investments into any asset. It is an exploratory cost of a business line.

Sidharth Singhal: Sir, one more question if I may on the oil and gas side, so could you please help with the timeline as to how those things work, so currently you mentioned that for one of the blocks we have already submitted the field development plan and for another block we will be submitting the FDP during the current quarter, so how much time do the exploration for the block for which we have already submitted the FDP and exploration and all is going to come at a huge cost so whatever plans in terms of that I am thinking to invest such huge sums in exploration and all those things?

Sandeep Garg: First of all, let me let me explain to you we are no more in exploratory phase. We are in a developmental phase. So, there are two different categories which means that the exploration is complete. The resources are available now they need to be brought out to the surface and sold. So, we are now developing a plan as to what is the most optimal way of exploiting these resources rather than trying to find these resources. So that is something which I would want to first of all clarify. Secondly, the earliest that I look at this point in time for the B9 the anticipation is we will not be able to get the first cap out before FY26 depending upon the approval of FDP this is the earliest that we can target. Now, since I said that we are going to develop B9 as well as MB-OSN-2005/2 together simultaneously we will submit the FDP of the Mumbai Block or MB-OSN-2005/2 block within this quarter and these both projects FDP being approved by this authority, we will create a business proposition for the board to accept. Once the board accepts as to what will be the debt equity contribution, how the funding will take place of this project, will we be in a position to tell you what is the total outlay and how that is going to be funded. We will come back with transparency once this clarity comes in.

Moderator: The next question is from Riya Verma from NR Securities. Please go ahead.

Riya Verma: Firstly, I wanted to know out of the Rs. 10,100 crores of order book how much will flow through the P&L and how much would flow towards capital gains at exit?

Sandeep Garg: This is the Rs. 10,000 crores plus order book is all which will pass through over P&L through the EPC route. Now there are two of these projects namely Aunta-simaria project and Sattanathapuram Nagapattinam road project, these are HAM projects where we are also standing as developers. The value of these as an asset per for us will be in the ranges of about Rs. 3,500 crores enterprise value.

Riya Verma: And having moved out of road HAM into less competitive water what is the next segment that you see Welspun moving toward to earn higher returns?

Sandeep Garg: Let me clarify that I have not moved out of HAM projects. We have stayed away from very highly competitive intensity. However, over the years we see that intensity going down. We are waiting in the wings to get back to the business as and when the opportunity is right. So, we are very focused on the bottom-line driven decision making and analytics of what is viable for us. We are not necessarily chasing a particular model. We are agnostic to the model, we could try EPC, we could try BOT toll and hybrid annuity model we are already in the toll road as Mukarba chowk Panipat. We are already in HAM with the various projects that we have and we are in EPC on Varanasi, Aurangabad road projects. So our offerings on road are composite on all these three models. However, on the water side offerings are primarily EPC. We have our one small BOT project in the water space as well.

Riya Verma: And lastly how do we see us build on our order book going forward, any outlook on the same and additionally if you could throw some light on our focus segment?

Sandeep Garg: The current focus on the road and water shall continue and as I said in my opening remarks we have identified projects worth Rs. 67,000 crores as a first cut where we believe that they will be amenable to the returns that we expect now any business scenario of our nature you would expect anything to 10% to 13% of a win ratio on this kind of order book. So, that is what I would be expecting. However, we will see based on competitive intensity how much we would actually want to bid.

Moderator: Thank you. The next question is from Divakar Rana from Prudent equity. Please go ahead.

Divakar Rana: Sir, in the earlier concall you mentioned that you plan to go debt free on a standalone basis. Right now, I can see in your balance sheet that you have paid some debt, so can we assume that the Company will go debt free in coming one or two quarters on a standalone basis?

Akhil Jindal: Let me just try and answer this the net debt that is left in the Company I mean the gross debt is just an NCD which is Rs. 275 crores which are also falling due in this month which is in may the current month. So, once that also get repaid unfortunately we could not repay those NCDs because the provisions were not there in the in NCD document, but say first June onwards our gross debt at the holdco level or on the standalone level would be zero.

Divakar Rana: Sir sorry I missed you by next quarter.

Akhil Jindal: Say by first of June 2023 within a month time from now..

Divakar Rana: One small question basically if I see your consolidated P&L there is around Rs. 13.88 crore loss from discontinued operation, so can you throw some light on this?

Lalit Jain: Basically, we have Mukarba Chowk project which has already achieved, we have still 51% holding in that project. So, this is basically the associate accounting we are doing. So, for the quarter this is the loss we accounted.

Divakar Rana: This is basically a onetime loss?

Lalit Jain: Yes, this is a onetime loss.

Moderator: The next question is from Riya Soni from Soni Investments. Please go ahead.

Riya Soni : Firstly, with the cash that we have available from the Actis deal could you please provide specific details about your plan for deploying the fund and it would be great if you could share some concrete information on the same as you said that you will update the same in the Q4 FY23 earnings call?

Sandeep Garg: I will take the initial portion of the question and ask my Akhil and Lalit to step in. The current situation is that we have identified the fund requirement for our existing projects in terms of equity and temporary loans which is for the existing business which will be in the range of Rs. 375 crores. So, that much of allocation is already made out of the cash that you see on the balance sheet as on 31st of March please recall that there has been a buyback of about Rs. 285 crores including taxes the money which has gone out, Rs. 275 crores is already allocated to refund the NCDs that we have. So, this is the current allocation that we already have made. So, as I said we are looking at business of Rs. 67,000 crores of projects which are both the HAM as well as the EPC contracts, so certain allocations will be reserved for future business growth. The balance money as and when it is either the oil and gas business scenario becomes clearer we would allocate those funds to oil and gas or any other verticals that we create.

Akhil Jindal: I think you summarize it well Sandeep. Clearly, quite a lot of cash is already earmarked for some of the pending liabilities or pending investment commitments and to that extent I think while the cash balance looks pretty heavy at the beginning of the year, but almost Rs. 1000 crores out of that is either to be used for the debt repayment or for the investments or the buyback as the case may be and as Sandeep mentioned we are chartering the plan for the further investment which we are going to come and discuss with you in more greater details in the next earnings call.

Riya Soni : Secondly are we currently exploring any transaction in the nature of Actis?

Akhil Jindal: See these two assets that we are building in as Sandeep mentioned we have time for almost 18 months to build up those assets. Our endeavor would be to build them as soon as possible and naturally we have an arrangement under which we would also like to sell those assets in the line of our strategy of being asset-light model which has been followed so far. Clearly these two assets would be of an of an enterprise value of around Rs. 3,500 to Rs. 4,000 crores as the case may be. So, a lot of liquidity is likely to get generated at that point of time also. And just to reiterate what Sandeep mentioned in the beginning of the call over the last four, five, six years as the Company we have returned almost Rs. 50 per share in excess of Rs. 50 per share by way of a dividend or by way of a buyback. So, almost Rs. 700 crore plus has been returned back to the shoulders over the last 5 to 7 years and our endeavor would be to continue on this path and naturally our earnings are also not like a single line function. It is a combination of both EPC income as well as the funds that we get on the exit. So, both of these are to be kept in mind, and also our board will decide on the distribution policy as the case may be from time to time. So, I think the exit is certainly in our mind and as Sandeep also mentioned about the oil and gas as they are getting FDP ready the interest on this oil and gas assets is also likely to improve from the external world perspective. So, that is also one of our focal area that once we have established the viability and have completed the FDP we would also look at the possible ways to monetize those assets. So, this is something that is our overall plan over the next 12 to 18 months and that would keep the balance sheet healthy by the way I also want to share that CRISIL which is otherwise not rated Welspun Enterprise so far, but this time they have done the rating of Welspun Enterprise and I am happy to share that we are one of the few companies in the infrastructure segment which has been recorded at AA minus rating by CRISIL and CRISIL one of the most respected rating agency has gone through a 360 degree violation of this Company and to that extent this is a very happy news for the Company and also from a from a overall risk metrics perspective. So, I think that is something that I would like to share and I think if there are any no further questions can we move on to the closing remarks.

Moderator: It seems no further question. I would now like to hand the conference over to Mr. Sandeep Garg for closing comments.

Sandeep Garg: Thank you. On the happy note of putting in the highest revenue for the Financial Year for the quarter, the best cash position, the best profit after tax it is a very happy situation for me to thank you all once again for joining us on this call today and I hope we have been able to address all your queries. I look forward to speaking to you once again during the next quarter. Meanwhile, please feel free to reach out to Salil or Siddharth or SGA our Investor Relations Advisor for any clarifications or feedback. Thank you all and good evening.

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