“Welspun Enterprises Limited

Q2 FY '25 Earnings Conference Call”

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MODERATOR	**MR. VAIBHAV SHAH – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day, and welcome to Welspun Enterprises Limited Q2 FY '25 Earnings Conference Call hosted by JM Financial. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vaibhav Shah from JM Financial. Thank you, and over to you, sir.

Vaibhav Shah: Yes. Thank you Del, On behalf of JM Financial, I welcome everybody to Q1 -- Q2 FY '25 Earnings Conference Call of Welspun Enterprises Limited. I will now hand over the call to Mr. Salil Bawa, Group Head Investor Relations of Welspun World. Over to you, sir.

Salil Bawa Thank you very much, Vaibhav. Good afternoon to all of you, and Happy Diwali in advance. On behalf of Welspun Enterprises Limited, I welcome all of you to the company's Q2 and H1 FY 2025 Earnings Call.

Along with me, I have Mr. Sandeep Garg, Managing Director. He's taking this call from Delhi. So in case if there is any disturbance, you'll have to bear with us. I also have Mr. Saurin Patel, Managing Director, Welspun Michigan Engineers Limited; Mr. Lalit Jain, Chief Financial Officer for Welspun Enterprises; and Mr. Siddharth Bharadwaj, Head IR for Welspun Enterprises.

We hope you have had a chance to review the investor presentation that we filed with exchanges yesterday. It is also available on the company's website. During the discussion, we may be making references to this presentation. We request you to take a moment to review the safe harbor statement in the presentation.

As usual, we will start the forum with the opening remarks by our leadership team, and then we will open the floor for your questions. Once the call gets over, should you have any further queries that remain unanswered, please feel free to reach out to us.

With that, I would now like to hand over the floor to Sandeep. Sandeep, Welspun Enterprises. Over to you, Sandeep.

Sandeep Garg: Thank you, Salil. Thank you, and good afternoon, everyone. Welcome to the Welspun Enterprises Q2 FY '25 Results Conference Call. I would like to thank all participants for their presence. We have continued on the momentum from the first quarter and have delivered consolidated total income of INR1,798 crores in the first half of FY 2025, which is a growth of over 25% over the same period last year. This result keeps us on track to our full year FY '25 target of INR4,000 crores of consolidated income.

All our past projects across the water and transportation verticals as well as our subsidiary, Welspun Michigan, are running as per current agreed schedules and have contributed towards this outcome. While Saurin from Welspun Michigan and Lalit CFO from Welspun, will share more details on quarterly performance, I want to take this opportunity to reiterate our vision for the company over the next few years.

To prepare the organization for long-term growth and succession planning, I'm pleased to inform that Board has approved the appointment of Mr. Abhishek Chaudhary as CEO of the company. Abhishek brings with him over 2 decades of experience in policy formulation, strategy implementation and leadership in key national initiatives such as the National Industrial Corridor Development program; PM Gati Shakti National Master Plan, Make In India; Logistics Databank, Unified Logistics Interface Platform and YashoBhoomi. Abhishek has proven expertise in driving strategic growth and execution. I'm confident that Abhishek will bring fresh energy and vision to the company to take it to its next level.

We started as a road player and created the water vertical 6 years back to build the capabilities that have resulted in close to 85% of our current order book. To add capabilities in niche area of tunneling, we acquired a majority 50.1% stake in the renamed Welspun Michigan Engineers Limited in August 2023. I'm pleased to share that the Board has approved further acquisition of 9.99% equity in WMEL for a consideration of INR100 crores. Once the transaction is complete, WEL will be holding more than 60% in WMEL.

To add to our transformative journey, Welspun Enterprises subsidiary WMEL, is all set to introduce Pan-India, a revolutionary new technology developed by Smart Ops U.K. in the area of waste water and water treatment. With this new offering, we will create a sustainable alternative to the traditional water treatment approach, thus adding a new segment to address the huge problem of an estimated 63% of India's sewage being released untreated into the environment. Saurin will be sharing more details in his opening remarks.

Welspun Enterprises has moved forward as a differentiated EPC player with entry into the extremely promising segment of specialized tunneling. As detailed in our filings with the exchanges on October 8, WEL has backed a significant order from BMC, Brihanmumbai Municipal Corporation of about INR1,989 crores, for the design and construction of tertiary treated water conveyance tunnel from Dharavi wastewater treatment facility to Ghatkopar waste water treatment facility, both projects being of BMC.

This order is in line with our Chairman's stated objective of growth and green and is an outcome of our strategy to create joint capabilities with our subsidiary, Welspun Michigan, and thus enable WEL’s entry into a new segment that has huge opportunities across both water and transport verticals.

With this new order, Welspun Enterprises stand-alone order book is now a formidable INR13,655 crores of which approximately INR9,633 crores is from water sector, which includes approximately INR4,400 crores from O&M and assetreplacement. Approximately INR1,989 crores from the newly added tunnel segment and the balance, approximately INR2,033 crores is from transportation sector. In this order book, we are excluding INR1,850 crores of road projects where we are already declared L1.

Welspun Michigan has an order book of INR1,572 crores as on 30th September 2024, which includes orders they received of INR160 crores and INR25 crores in Q2 FY '25. The same have been filed with the exchanges at appropriate time. This makes our consolidated order book approximately INR15,200 crores, thus giving us immense visibility to ramp up our execution in the years to come.

We remain positive on future bidding across our verticals and our subsidiary. We have mapped out opportunities across water supply, sewerage treatment plant solutions, water transmission, and road BOT projects. This gives me confidence to share that we should be ending the current fiscal with an order book in the range of INR17,000 crores to INR20,000 crores at a consolidated level.

On back of this strong order book, that we now envisage, we now expect the revenue growth on a consolidated basis to be around 20% to 22% over the period of FY '25 to FY '27. We at Welspun Enterprise have a large team of over 400 experienced engineers besides various other teams across different departments that are highly motivated and work together in creating a unique organization.

I am proud to share that Welspun Enterprises has been recognized as one of the best workplaces for millennials by Great Place to Work in last quarter. I truly believe that we have laid a solid organizational foundation to propel Welspun Enterprises consolidated revenue to reach in the range of $1 billion in the next few years.

WEL and its subsidiary, Welspun Michigan, have consistently pushed boundaries, setting new benchmarks in quality and execution with unwavering commitment to excellence, innovation and transformative impact in the industry. This approach has continued to get recognition, and I will briefly touch upon some of them.

Welspun Michigan Engineers Limited has been awarded best brand in construction and infrastructure for water infrastructure at the 9th ET NOW Infra Focus Summit and Awards 2024 for its pioneering, innovative approaches in urban water solutions, particularly through underground construction and delivering projects that minimize disruption to life of people living close by and also the environmental impact.

Our work at Dharavi wastewater treatment facility, VARP and SNRP have been recognized for various safety initiatives. Construction World Global Awards 2024 has conferred Welspun Enterprises with the award for valuable industry contributions.

During the quarter, we continued with our efforts for development of oil and gas field blocks housed in the joint venture Adani Welspun Exploration Limited. And we had a few meetings with the regulator for approval of our field development plan for block MB-OSN-2005/2, generally called by us as Mumbai Block. We expect the entity to be approved in the current quarter.

With this, I now hand over the call to Mr. Saurin Patel, MD of Welspun Michigan Engineers Limited. So over to you, Saurin.

Saurin Patel: Thank you, Sandeep. Good afternoon, and greetings to all for the festive season. At the outset, I am very happy to share that Welspun Michigan is all set to introduce a revolutionary new technology in the area of water treatment through Welspun Smart Ops. With this new business, we endeavor to create an alternative approach to address the huge problem of an estimated 63% of India's sewage being released untreated into the environment. This pioneering new technology is modular, scalable, cost-efficient and easy to deploy in a water body or drain point to rejuvenate or recycle the water. This includes tertiary and portable water for commercial and domestic use.

With an extremely small footprint, which is up to one-fifth of conventional technologies, reduced deployment time of 90 days for a 15 MLD plant, more than 2 years -- which is more than 2 years for conventional technology-based plants, this will be a significantly cost-efficient technology. The scalability and ease of transfer offered by this technology will open up new business opportunities and thus, augment our future order flows.

I'm extremely happy to share that we have received our first project order to deploy this new technology, which has been disclosed to the stock exchanges. Our order book as of September 30 is INR1,572 crores with INR170 crores of operations and maintenance. We have received the LOA for the project where we were L1 in the last quarter. This order book entails 21 projects, which are spread across micro tunneling and segment tunneling, marine works, pumping station construction, rehabilitation of sewer lines and bridge construction, and is largely executable over the next 36 months.

Our order pipeline is healthy. And with the rollout of the new technologies that I mentioned, we retain our sights on a big pipeline worth INR50,000 crores in the medium term. These projects will be bid for on a selective basis, either directly by Welspun Michigan or through Welspun Enterprises Limited.

Coming to the key financials of the concluded quarter, WMEL has delivered revenue of INR104 crores, thus taking our H1 FY '25 revenue to INR248 crores, marking growth of 47%. I'm confident we will continue the execution momentum into the financial year and endeavor to better the guided 30% growth for FY '25. This performance has been consistent from a margin perspective.

Reporting EBITDA margin works out to approximately 22% for Q2 FY '25. The new order wins and our current projects give immense confidence of sustaining these margin levels. We have been an engineering solution provider for urban infrastructure needs, which is a niche area, and we wish to operate in the specialized niche areas of tunneling and water rehabilitation projects on a much larger scale.

Our year-old association with Welspun Enterprises Limited has resulted in the opening of new avenues of EPC projects. And thus, we see vastly larger opportunities ahead. These opportunities are both from new geographies due to Welspun Enterprises wide reach as well as new initiatives that we are evaluating such as working with new technologies like Smart Ops.

With this, I will close my remarks and hand the call to Lalit Jain, CFO of Welspun Enterprises Limited for updates on financials. Thank you. Over to you, Lalit.

Lalit Jain: Thank you, Saurin. Good afternoon to everyone, and many thanks for being part of this call. As our MD shared, for this quarter, we have delivered INR838 crores of total income for Q2 FY '25 against INR693 crores in Q2 FY '24, which is a growth of 21% year-over-year. The H1 FY '25 consolidated income is INR1,798 crores, which is a growth of 25% over H1 FY '24.

Our consolidated EBITDA for Q2 FY '25 is INR150 crores against INR130 crores in Q2 FY '24, thus marking 16% growth year-over-year. This EBITDA works to a margin of 17.9%. Our consolidated PBT before exceptional item for the quarter has grown by 5% to INR102 crores. For consolidated profit after tax for the quarter is INR62 crores against INR69 crores in Q2 FY '24, which is a drop of 11% year-over-year.

Please note, consolidated PAT drop is largely on account of post-tax deduction of INR12 crores from discontinued operation of our Mukarba Chowk-Panipat project. This will be notional loss and does not have any cash flow impact as we are holding our investment in the SPV for sale at pre-agreed price with Actis Highways. On a stand-alone basis, for Q2 FY '25, total income is INR688 crores, EBITDA is INR99 crores, profit before tax on a stand-alone basis INR87 crores, while PAT is at INR65 crores.

I'm happy to share that we have closed out the short-term borrowing, which had been utilized towards working capital needs. We have a strong balance sheet, as demonstrated by our stand-alone net worth of INR2,533 crores. We remain debt free on a stand-alone basis with cash reserve of INR866 crores, which will allow us to grow the business to the next level.

I would also like to inform that company was previously focusing on the road projects, which accounted for a significant portion of its revenue. However, in the recent quarter, the order book has diversified to include projects in the water, wastewater, tunnelling and rehabilitation sectors. Along with the acquisition of Welspun Michigan Engineers Limited to reflect this expanded portfolio, management has decided to do the segmental reporting starting with Q2 FY '25 for each vertical, namely: Water, Transport, Tunnelling and Rehabilitations.

I would like to take you all through the segment wise revenue numbers for the Q2 FY '25. Out of total operational revenue of INR789 crores, INR379 crores comes from Transport and Water contributed INR304 crores, and the balance of INR105 crores is being contributed by Tunnelling and Rehabilitations works.

With this, we can open the forum for question and answer. Thank you very much.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Parth Thakkar from JM Financial.

Parth Thakkar: Sir Hi I would just like to ask the management, if they can throw some light on the new water project, Water Tunnelling project from Dharavi to Ghatkopar. And when do we expect to start booking revenue in that?

Saurin Patel: So -- Sorry, Sandeep?

Sandeep Garg: Yes. Saurin, please take this call -- question, please.

Saurin Patel: The -- is the tertiary treated water conveyance tunnel from Dharavi wastewater treatment facility to Ghatkopar wastewater treatment facility. And it is approximately 8.45 kilometres long. It is at a depth of 152 meters, and involve the construction of 2 shafts, one in Dharavi and one at Ghatkopar. And no coming up for air in the middle. Each shaft is between 10 to 15 meters in diameter, and the average depth is 150 meters.

So we are supposed to do the tunnelling using open board -- full phase -- and there is a lining process involved to convey the water. The revenue will begin being booked from FY '25 at a lower end, simply because we have to wait for some clearances and permissions that will be required as this is part of a CRZ Zone, etcetera.

Parth Thakkar: Okay. And also can you guide me for the capex guidance for the next -- for this year and next financial year? And also, how much have we done till now in first half of FY '25?

Saurin Patel: Capex for this project or for the company as a whole.

Parth Thakkar: No, no, consolidated level, capex? And also if you can guide me for the stand-alone level as well?

Lalit Jain: Okay. Basically, at….

Moderator: Sorry to interrupt, sir, could you come a bit close to your handset, there's a lot of cracking from your side.

Lalit Jain: In terms of capex, at Welspun Enterprises level, we are asset-light company. We don't have major capex. However, around INR100 crore capex will be used for this new project through Welspun Michigan.

Parth Thakkar: No, sir, I was asking on the consolidated level for the whole, not just for this project?

Lalit Jain: It will be similar.

Parth Thakkar: Okay. And how much have we done till now in the first half?

Lalit Jain: No, no capex till now.

Moderator: The next question is from the line of Dinesh from Finsight.

Dinesh: Sir, my question is, let's say, we have acquired this new stake in Michigan company. What is the time for this across India? I mean, like how large this could become on its own? Because I doubt like how many the kind of almost INR2,000 crores -- one project. But like how many such kind of orders across India, we can think of, at a larger scale, I want to know?

Sandeep Garg: So just to give you an idea, the tunnelling business across various sizes is in the tune of at least our mapped projects are to the tune of about INR3 lakh crores over a period of next 5 to 7 years.

Dinesh: And what is the probability of -- we are getting, let's say, INR3 lakh crores, maybe 10%, 20% is what is the big target -- I mean I'm sure not all will go to...

Sandeep Garg: We are going to that level of 10, 20 percentages, single-digit few percentage is what we will target.

Dinesh: And sir, how about the water treatment and sewerage -- another segment as we will look at, right?

Sandeep Garg: Yes. So the opportunities in water treatment plant and all the businesses across water, including tunnelling, etcetera, we are -- we have as the tunnelling itself what we are targeting is in the range of about INR50,000 crores at a water -- at a macro level, we are targeting projects of about INR3 lakh crores over a mid-term period.

Dinesh: And sir, you mentioned that we are looking at, let's say, $1 billion revenue maybe in the next few years, what kind of EBITDA margins or PAT margins you would try to go for?

Sandeep Garg: We always target EBITDA margins at around 15% to 16% at a stand-alone basis. And about 16% to 17% on a consolidated basis for at least next 3, 4 years.

Moderator: The next question is from the line of Vishal Periwal from Antique Stock Broking.

Vishal Periwal: Sir, first on this Michigan acquisition that we have done. In terms of valuation wise, I mean, 12 months back, the valuation, the paid it was sub INR300-odd crores, now it is almost like INR1,000-odd crores. So what exactly has gone in our assumption that has led to this increase?

Sandeep Garg: So the original transaction was then at about 4x to -- 4x EV by EBITDA. While the industry is operating at about 9x. So if you are to do about 9x, we still believe that the -- whatever is we forecasted for FY '25, it is still a cheaper option to buy. And as we said, we have a large vision for Welspun Michigan. We believe that we can grow it to scale -- a much larger scale. So that's something strategic decision the Board has taken to acquire it at equity valuation of INR1,000 crores, as you believe is still undervalued for us.

Vishal Periwal: So valuation is one sector that has probably led and definitely like earlier it was maybe like FY '24, now it has move to FY '25 as a valuation parameter broadly, correct, sir?

Sandeep Garg: And also, we are aware of the strategic decisions that we are making. We see a lot of growth coming to the Welspun Michigan.

Vishal Periwal: And then in terms of our O&M order book that we have reported, what is the execution time frame for this part of the order book?

Sandeep Garg: So the order book of operation and maintenance spans out over 10 to 15 years depending upon the project.

Vishal Periwal: And in terms of a couple of accounting, I know that there's changes or probably the segmental reporting that we have done. In consol, the Michigan is booked in which segment?

Lalit Jain: Tunnelling and rehabilitation.

Vishal Periwal: Sorry, sir?

Lalit Jain: Tunnelling and rehabilitation.

Vishal Periwal: And I mean, if one has to understand O&M, probably the O&M, the revenue that we booked. So will this be part of water in the segment?

Lalit Jain: So it is respective vertical, water is the water and tunnelling is tunnelling. So we don't have a separate segment for O&M price now.

Sandeep Garg: So it is not significant right now if the revenues from O&M will become significant. We will start reporting it as a separate segment itself. But right now, it is booked under this various segments that we have defined as Transport, Water and Tunneling and Rehabilitation.

Vishal Periwal: And maybe a ballpark number, what is the O&M revenue contribution in terms of percentage to the consol stand-alone, if you can help in providing.

Sandeep Garg: I think it's insignificant.

Saurin Patel: I think negligible now in this now.

Vishal Periwal: Okay. Got it. And maybe one last thing. So I think there was a couple of project road assets, which government was earlier, the PMO has approved and they were supposed to come for bidding. So any industry update that you have like any time line that you see probably the from like the Ministry of industry that we can provide?

Sandeep Garg: So, I think the movement on those projects have started. We understand about 15, 16 projects were cleared at the SFC. So, we expect those projects to hit the bidding situation over the next couple of years -- a couple of months going forward.

Moderator: The next question is from the line of Kashvi Chandgothia from JRK Group. Please go ahead.

Kashvi Chandgothia: Sir, my question is that we understand that September quarter remained seasonally weak for the company, but explain and throw some light on what is the main reason behind the margins contracting this year?

Lalit Jain: Your voice is not clear, ma'am.

Kashvi Chandgothia: So my question is that we understand that the September quarter remained seasonally weak for the company. But what is the main reason behind margin contractions for this year?

Lalit Jain: Basically, this is monsoon quarter. So, in infra-industry, September quarter is always at lower size. And the turnovers are also low, the fixed expenses remain fixed, so that's way the margin is low.

Sandeep Garg: So there are two -- just to add to what Lalit is saying, there is relatively no contraction of margins if you see in any parameter other than something which is -- we are booking a loss on asset which is held-for-sale asset and it's on a pre-agreed price. Otherwise, the margins have grown, and it is normal for some contractions to take place in terms of the percentages because the fixed costs are apportioned on a lower revenue base.

Kashvi Chandgothia: And sir, I have another question. Sir, like you said and from the presentation also, we have a post this company has lower bidder for various projects. Sir, what are the margins that we keep in such bidding that allows us to become the L1?

Sandeep Garg: So, we -- as I said, there is one project of road where we are L1, which is of the value of INR1,850 crores. And the road vertical gives the EBITDA margins in the ranges of about 14%, 15%, which is what we would provide for in all our bids.

Moderator: The next question is from the line of Prateek Bhandari from Aart Ventures. Please go ahead.

Prateek Bhandari: I just wanted to understand that the total O&M order book size is INR4,400 crores, comprising both Michigan and Welspun Enterprise?

Lalit Jain: No, this is only for Welspun Enterprises.

Prateek Bhandari: INR4,40 crores. And what about Michigan?

Sandeep Garg: Michigan, we have INR170 crores by numbers.

Prateek Bhandari: INR170 crores, all right. And what would be the execution time line for this consolidated order book that stands in our books INR15,200 crores?

Lalit Jain: In terms of the -- we talk about the operation and maintenance, it will take 10 to 15 years. New projects which we got for the Dharavi-Ghatkopar is again for 9 years project. So different-different projects, having different-different time lines.

Sandeep Garg: Okay. So, the -- sir, depending upon the vertical that we are dealing with, typically, the road or transport is something that where the revenues are recognized between 3 and 3.5 years on average of out. In the water, it is somewhere between 4 to 5 years and tunneling it's between 5 to 8 years is the average time that you will take to recognize the revenue.

Prateek Bhandari: So, 4 to 5 years for water, 5 to 8 for tunneling and for road EPC?

Lalit Jain: So, road is between 2.5 to 3.5 depending upon the size. So that's the kind of project time period in…

Moderator: Sir, could you come a bit close to the handset, your voice is cracking.

Prateek Bhandari: So, what was the order inflow for this quarter?

Sandeep Garg: So, for this quarter, we had an order inflow of the tunneling in the WEL level of about -- how much is that, INR1,900?

Lalit Jain: INR1,989 crores we got with this Ghatkopar-Dharavi project and INR25 crores is from the Michigan.

Sandeep Garg: No, INR160 crores.

Lalit Jain: INR160 crores in the Michigan.

Prateek Bhandari: INR160 crores Michigan and INR1,985 crores in WEL.

Moderator: The next question is from the line of Yash Dedhia from Max Capital. Please go ahead.

Yash Dedhia: So first question is if I look at your segmental reporting, your EBIT has come down a lot in the tunneling segment despite 47% growth. So what could be the reason behind that?

Lalit Jain: Segment, if we talk about this, we are reporting that this as a subsidiary company. So this margin is after depreciation and interest. That's why it is low.

Yash Dedhia: No, no. Y-o-Y.

Lalit Jain: EBITDA margin is 21%.

Yash Dedhia: Sir, Y-o-Y EBIT has come down from INR13 crores to INR10.5 crores in your segmental reporting. That is what I'm asking.

Lalit Jain: Yes, 13 to 10, there are 2 reasons, one in this quarter, there was some GST claims earlier, which we are recognizing that as a revenue. In this quarter, we have decided to go conservative, and we were not recognizing any claims until unless same is getting realized.

Yash Dedhia: Okay. So some onetime things have done.

Lalit Jain: Yes.

Yash Dedhia: And second, what is the status of the MSRDC project where we were L1. Why have included that in our order book, any doubt on the final sort of project coming to us?

Sandeep Garg: No, I think we are L1. The issue is the -- there are elections, the model code of conduct has clicked in, we expect it to be awarded post the election process is over.

Yash Dedhia: Okay. But in case there is a regime change, is there a doubt on this project being awarded to the parties as of now?

Sandeep Garg: We foresee no such risks at this point in time. However governments are governments, so they will take their own call because this project is needed, the -- already connectly built highway by NHAI. So, I think it will be a necessity that will have to be fulfilled.

Yash Dedhia: Okay. And coming to the margins. So, if I look at your stand-alone now, I accept that there is some seasonality in quarter 2, but even 1x to 1x, our contribution to water segment is increasing, but our EBITDA margin excluding other income has fallen by 100 basis points. And similarly, even in the Michigan business, we are seeing that the EBITDA margins have come down from 24%, 25% to 22%. So, what is the reason behind the margin fall in both these businesses?

Sandeep Garg: So, I think the more important thing is to look at the margins that we have guided towards the annual. The quarterly results can be skewed based on the project, which has delivered more revenue. Certain projects have more profitability, certain have lesser. So, this is a amalgamation that you are looking at. So I would request you to look at the guidance for the complete year. And from that perspective, if you look at it, it is something which is in line with our guidance. The other thing that I would want to reiterate is there are certain notional losses -- okay, those are consol level -- irrelevant.

Lalit Jain: Another thing, sir, there was also some claims in the last financial year. That is where was the reason earlier last year higher margin in terms of EBITDA margin. So this is the reason.

Sandeep Garg: There is a difference of almost INR25-30 crores because of onetime.

Yash Dedhia: Which was there in the last year?

Lalit Jain: Correct. There was a claim in last with the higher amount. And this time also, we have a claims but its lower amount. So there's a differential due to that margin is coming down.

Yash Dedhia: Now coming to the road sector, we have been also sort of hearing from not just you but companies as well that finally, we will see light at the end of the tunnel, and we will get the project awarded by NHAI. But seems that there has been some inordinate delay in that. So what is the sense on when we can expect major projects being awarded by NHAI? And we will really also be looking into that?

Sandeep Garg: The necessity exists. It's only a question of that last year, they had awarded substantial orders and they have -- if you've noticed that NHAI last year, the highest award, the highest execution, higher spend across ever since it has come into existence. So I think there is a bit of a slowdown, but that's something which is temporary. The need continues to exist. So there may be certain things that they are looking at the drawing -- going back to the drawing board as to how to make BOT successful, etcetera, etcetera, which is delaying the process. So I think it's just a matter of a quarter or so that they will be back on the awarding spree.

Yash Dedhia: Understood, sir. And just one final question...

Moderator: Sorry to interrupt, sir. Please fall back in the queue for further questions. The next question is from the line of Koustubh Shaha from Wallfort PMS. Please go ahead.

Koustubh Shaha: Congratulations on the good numbers and the order book. I had a question on the Smart Ops that announced. So in terms of -- I just want to understand the economics, how does it work? And what are the business plans for this? How do we kind of model the revenue? What was your expectation for FY '26 from, that is my first question?

Saurin Patel: Smart ops fundamentally is a transformative process dealing with wastewater at the location where it is generated. And so this can be applied at like we -- like I said in my opening remarks, at various sewers, various lakes, various ponds, various drains or even to retrofit existing STP eventually to be applied even in housing societies. And fundamentally, we aim to treat industrial affluent also with this. So it's a very wide applicability of this technology.

And obviously, the ticket size of each depending upon the size of the plant required at each location, it will be very different. It can range from 0.5 MLD, but the modularity allows it to go up to 100s of MLD up to say, 500, 600 MLD of plants. So the scalability is there and we aim to gear up at a reasonable pace, having acquired the first project at the Templet town of Pandharpur for 10 MLD.

We hope that completing that within a period of 90 to 120 days, will give us the visibility that this technology is a very speedy modular and applicable technology with high visibility. So the guidance for '25, '26 right now, -- we hope that we will be in the 50 to 150 MLD range. And that the gearing and the upward trajectory for this applicability will continue as more and more clients come to appreciate the speed and the efficiency with which it can deliver results.

Koustubh Shaha: Okay. And this first project of 10 MLD at Pandharpur, so what is the total cost of this project? If I understand the EBITDA margins of the.

Saurin Patel: The tender has been -- the award price for us, which has been disclosed to the stock exchanges is approximately INR25 crores.

Koustubh Shaha: Okay. And tentative margins, that will be earning on this?

Saurin Patel: Tentative margins will be again depending about the size of the project in the sense, if you have a smaller project, it will carry a different margin. And as the project ticket -- the MLD size increases, it will carry a different margin. So I would give you a range. The margin ranges can go from 20% to 30%, 35%.

Koustubh Shaha: Okay. Great. And another question was on the oil block because if I heard right, you said that the oil block approval should come in by this quarter. Is that correct?

Sandeep Garg: That is correct. We are pushing for that.

Koustubh Shaha: Yes. Okay, great. So in that case, if there's approvals to come in, are we looking at any further capex? Or what are the plans for there, just wanted to understand on that.

Sandeep Garg: So we would be open to both suggestions and this is subject to the Board's approval of capital allocation to do farm in as well as the project on our own, depending upon the Board's guidance.

Moderator: The next question is from the line of Dinesh from Finsight.

Dinesh: Actually I joined a few minutes late, maybe I missed said in addition. Can you just give me a guidance for this financial year? Like are we expecting something like close to INR4,000 crores in sales? And what would be the EBITDA margins we are looking at?

Sandeep Garg: So the guidance or our target for this year, FY '25 at a consolidated level worth INR4,000 crores. And as -- at a consol level, our reporting EBITDA margins should be in the range of 16% to 17%.

Dinesh: Okay. Sir. That's great. And sir, actually, I'm looking at your balance sheet in a bit detail and you mentioned we have some cash of around INR866 crores or something. But what is this -- how does the balance sheet look like but that's setting on a stand-alone basis. But how -- what about the consolidated level? Like what's the debt here? And what's the net cash we have? If you could just give some guidance?

Lalit Jain: Yes. At consol level, INR1,015 crores we have debt, and we have a cash of INR924 crores.

Dinesh: Okay. So somewhere around INR600 crores or something net debt, right? That's what we are?.

Lalit Jain: So, net debt is approximately INR90 crores only.

Dinesh: Okay. Okay. And we are planning to pay off this -- what's the -- because we want to become net-cash...

Lalit Jain: This model is basically, we are prospecting the hybrid energy model. So where normally 80/20 is a debt of the remaining cost after reimbursing by NHAI. So always, there will be debt. Debt will be getting -- going to increase once the project is -- we are constructing the project. Satanatapuram project in South, it is around INR1,000 crores debt. We have drawn only INR385 crores right now. So it will be going to increase. So it will be never a debt-free at consol level, we will be debt free at the standalone level, not at consol level.

Dinesh: Okay. Okay, sir. Sir, just one last question from my end. See, we -- I see the -- our subcontracting charges are almost INR1,000 crores for this first half and out of the INR1,500 crores of expenses. And my point is, sir, like is it not possible for us to squeeze this further and by doing so a lot of work by ourselves and -- can we get higher margin here? I hope you're getting my question like what I'm trying to ask here?

Sandeep Garg: So the question is self-execution of construction. The answer is at the Board level, this issue was considered and we decided to stay with the asset-light model that we have chosen. Because once you do the construction yourself, a lot of money goes into buying the construction equipment, etcetera, etcetera. Your EBITDA margins are slightly better. But if you look at the PAT level, the PAT level margins for us are best-in-class kind of numbers. Because there are no financial charges and there is very little depreciation.

So my request to the analyst committee -- community and investors would be to not only look at the EBITDA numbers, but also to look at the PAT number, which is the true money available for the investors from the company side.

Dinesh: That's great, sir. And just the last point, I'd like to close here. We are saying we are constructing this Dharavi to Ghatkopar project roughly around 8 to 9 kilometers, the construction is required. My question is like we have Welspun Corp as our -- in the pipes business. We will definitely need DI pipes here. I'm assuming that. So is there any -- just if you could, elaborate something on this?

Saurin Patel: Sandeep, may I? I don't think -- I don't -- sorry...

Saurin Patel: Yes. We really have no DI pipe requirements here in this project. It's a TBM tunnel concrete lined tunnel. And whatever vertical delivery pipes are required are made out of steel.

Dinesh: Okay. Fine. Because I'm an investor in Welspun Corp. as well. So I was more interested in understanding if there is any mutual synergies in our business?

Sandeep Garg: No.

Moderator: The next question is from the line of Saket Kapoor from Kapoor and Co. Please go ahead.

Saket Kapoor: Sir, firstly, if you could throw some light on the EPC part of the story with the Utter Pradesh water and sanitation mission. I think the INR2,900 crores is what has been outlined in your presentation. So, in the segment revenue, where have we clubbed it? And how much revenue have we booked? And what is the time line for closure of the project?

Sandeep Garg: Yes, you'll take the financial part of the question.

Lalit Jain: So basically, in the water vertical, we have booked a revenue of INR304 crores in this quarter. With respect to project progress, Sandeep sir will explain.

Sandeep Garg: So, coming to the when do we expect project to complete, we expect in another 18 months or so the project to complete.

Saket Kapoor: Okay. And out of this INR304 crores, the entire amount is attributed to this project only?

Lalit Jain: No, no. This is not entirely. We have water segment. So we have Dharavi project also. We have UP-JJM…

Saket Kapoor: Particularly for the UP state, I was -- what is the state one -- at which the project is being executed if you could give?

Lalit Jain: Project wise, if you want, we can discuss off-line, please.

Saket Kapoor: Okay. But if you take 18 months for this project to complete, that is INR2,900 crore revenue that...

Sandeep Garg: So more than 50% of the revenue has already been recognized at -- Around 50% has been recognized. The balance will take time.

Saket Kapoor: Okay. And sir, then coming to the breakup for this quarter, we find under the Transport segment, the revenue of INR380 crores and the comparative number for June quarter was INR530 crores or to How should one read this split going for H2 also. If you could give us some color how -- this being a seasonally a lean quarter, what should we expect in terms of the revenue profile in terms of the execution for H2, if you could give us some color?

Sandeep Garg: So it will follow the trend of the H1 slightly better because the next 2 quarters are clear seasons. But the -- as I have always maintained in recent times that the growth engine is going to be from water and now tunneling as well. So these are the growth engines. The Roads segment is within the transportation, will see the level of play that we are currently seeing.

Saket Kapoor: Okay. So this 20% turnover growth will be more attributable to the -- towards the water end -- from the water that has been -- and it will be for the road part to be flat type of revenue. That is what you are…

Sandeep Garg: That is correct. If you see the order book itself, it is about skewed in the favor of water to an extent of about 80% plus.

Saket Kapoor: Okay. Sir, in the presentation, we have also mentioned about this river linking part of the story. So if you could just explain out of the order book, how are we faring into this? And what's the scope of work in this river linking project part of the story?

Sandeep Garg: River linking is, as you know, a lot of water rivers do have overflows and certain places, the water is not there. The government is coming up with a scheme of interlinking these water channels. So, this will be done through underground pipes, etcetera, etcetera. So, we believe that in the bulk transmission, we do have some experiences and expertise, so we -- which we want to leverage.

Saket Kapoor: So currently, in our order book, there is no portion of project for river linking. It is only that we anticipate going there.

Sandeep Garg: That is correct.

Saket Kapoor: Okay. But our group company will -- may play a part. I think the DI pipe requirement will emerge with the river linking project. Am I correct in that assumption, sir?

Sandeep Garg: So, the steel pipe requirements will be the larger portion, DI will be a smaller portion...

Saket Kapoor: Okay. And lastly, sir, a small question and... .

Moderator: Sorry, interrupt, sir. Due to time constraint, we'll take this as a last question.

Saket Kapoor: Let me complete my point, sir, if I may.

Sandeep Garg: Yes, please go ahead.

Saket Kapoor: Sir, for the oil and gas portfolio, sir, if you could just give us some color, where are we in midst of reaching the benefit going ahead? And what can be attributed from this segment? Once you were talking about some milestone being achieved for this quarter, what can we anticipate going ahead? And on the pricing front, so if you could give us some color on this here?

Sandeep Garg: What we are anticipating is in this quarter is that the -- our submitted FDP will get approved. The FDP is a Field Development Plan. Once that is approved, it determines what the capex will go in and what the revenue can be expected of the field and what kind of margins the company can make. So, this is a document which is reviewed and approved by the statutory arm of the Ministry of Petroleum called DGH. So once the DGH approves it, then the commercial viability of the project is established. And then only we can say authentically what to expect.

Saket Kapoor: Okay. So that was at the time line is going ahead for us. When -- and the work will begin and everything...

Sandeep Garg: That is correct.

Saket Kapoor: Okay. And the capex part also will be frozen once that is being So it will be in the same ratio in the JV that is 35% of the capex will be rooted through our company?

Sandeep Garg: That is correct. So 35% contribution towards capex will have to be made by Welspun, 65% by Adani.

Moderator: Ladies and gentlemen, that was the last question for today. is the end of our Q&A session. I now hand the conference over to Mr. Vaibhav Shah for closing comments.

Vaibhav Shah: Yes. Thank you, sir, for giving us the opportunity to host the call. Any closing remarks from your end?

Sandeep Garg: Yes. I want to thank all participants for joining us on this call today, and I hope we have been able to address all your queries. I wish you and your families a joyful Diwali and Festive Season ahead. We remain committed to creating value for our stakeholders, and our focus is in delivering improved return on equity and return on capital employed. I look forward to speaking to you once again in the near future. Meanwhile, please feel free to reach out to our CFO or Investor Relations team for any questions or feedback. Happy Diwali to all of you. Thank you.

Moderator: Thank you. On behalf of JM Financial, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.