Welspun Enterprises

Operator: Good afternoon, everyone. This is the third day of the Bharat Connect Conference. I welcome you all to the call of Welspun Enterprises Limited. Today, from the management side, we have Mr. Harsh Rungta, Group IR, and Ms. Sangeeta Tripathi, Company IR. Before I hand over the call to management, I will lay out the flow of the event. We will begin with brief introductory remarks by management, followed by the question-and-answer round. Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from participants who have raised their hands, and then we will move on to the chat box. If time permits at the end, we will take questions that we have received from clients who were unable to participate. With this, I now hand over the call to management. Over to you.

Harsh Rungta – Group IR: Thanks, Ronak. Thank you for having us on this call. I am not sure how many participants may be very familiar with Welspun Enterprises, so I will start with a brief overview of how the business has evolved over the years, from when we started. As you rightly said, we can then move on to questions.

As far as Welspun Enterprises is concerned, Welspun as a group is a 40-year-old group. Incidentally, we are celebrating 40 years this year as a group. As you would be aware, the textile business is the oldest business. It is the 40-year-old business that we have been in, followed by steel pipes for oil, gas, and water under Welspun Corp, which we started in the late 1990s. Welspun Enterprises started its journey in 2010.

In 2010, the group and our Chairman looked at the opportunity in infrastructure in India, and we acquired a business called MSK Projects, which stands for MSK Khurana. This was a company based in the north, and we acquired that business and some projects under it. This was a listed company at the time, so we acquired MSK Projects and renamed it Welspun Projects after the acquisition.

This was acquired under one of the subsidiaries of Welspun Corp in 2010. Therefore, over the next few years, there were some internal restructurings in order to consolidate the businesses into relevant specializations. The steel pipe business remained under Welspun Corp, and eventually Welspun Enterprises was formed specifically for the infrastructure business. We have been listed throughout—MSK Projects was listed, then Welspun Projects was listed, and then, of course, Welspun Enterprises continued to remain listed.

Today, Welspun Enterprises is a diversified infrastructure player. We started our journey in the road segment. After 2015, the first project, the first HAM road project in India, which was Package 1 of the Delhi-Meerut Expressway, was awarded to Welspun Enterprises. This was in 2016, and we were able to complete it well ahead of schedule, actually 11 months ahead of schedule, and establish our credentials.

We also acquired some projects that were not active at that point in time from the likes of MBL Infra, Vishvaraj Realty Developers, and SL Group, among others. These were BOT and HAM projects that we acquired over the next few years. These projects were not progressing because, perhaps, these groups were not financially able to complete them. Welspun Enterprises had the capability and the balance sheet to do so, so we completed these projects.

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One of the key elements of our strategy is that we remain asset-light. In the road sector, we ensure that construction is completed well ahead of schedule with the required engineering expertise, and then we divest these projects once their recurring revenue potential is established in the first year after construction. BOT and HAM projects are eventually divested once that recurring revenue potential has been established.

We have successfully done this in six or seven projects to date. For all these projects that we acquired, as well as some of the projects that we executed ourselves, the first round of divestment was in 2022, when we sold around six projects at an EV of {? 9,000 crores ?} to Actis. Similarly, the road projects that came after that, including the most recent divestment of the Antas-Simaria project in Bihar, were completed by us. We announced that divestment in the last quarterly results, and it is being divested to Alpha Alternatives.

Similarly, there are two more projects. One is a project in Tamil Nadu called Sathananthapuram, for which SNRP is the short form. That project is close to completion, and we are expecting PCOD soon. Therefore, it will follow the same route. It is a HAM project. We are also completing an EPC project on the Varanasi-Aurangabad highway.

The most recent project that we won in roads is the Pune-Shirur BOT project. That is the largest project we won. It is a {? 7,300 crore ?} project comprising a 54-kilometer stretch with a 35-kilometer elevated highway. It connects all the key industrial corridors and industrial areas in that part of Maharashtra. It is a very large project. We are expecting the appointed date soon, and execution will commence shortly.

That has been our road journey. In 2020, after establishing our credentials in roads, we also saw tremendous potential in the water sector. If you look at how we have evolved as a water player, India has 18% of the world's population but only 4% of its fresh water. Therefore, the scope for water recycling, treatment, transmission, distribution, and more efficient use of water will always remain a very relevant need for a country like India.

We began our journey with the UP JJM project in 2020. We won a part of it, covering more than 2,000-2,500 villages. That project is nearly 80-85% or more complete today.

It has had some delays along the way. Meanwhile, we have also entered water treatment plants. I also have my colleague Sangeeta with me. As far as the water segment is concerned, I will request her to give you a brief overview of the water segment, as well as the tunneling segment, which we entered through an acquisition. We can then open the floor for questions.

Sangeeta Tripathi - Company IR: Thank you, Harsh, and good afternoon, everyone. I am Sangeeta Tripathi, and I head Investor Relations at Welspun Enterprises. As Harsh was saying, we entered the water segment in 2020 after recognizing the opportunity that it offered, given the positive macroeconomic factors. Supply is very limited compared with the population, and there is increasing wastewater treatment and urbanization. Based on all these factors, we entered the water segment in 2020 with the UP JJM projects. Today, when we talk about our portfolio or our order book, we are executing four large water projects.

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The first is the Dharavi wastewater treatment plant, which is almost a {? 4,200 crore ?} project. It is very unique in terms of the infrastructure and wastewater treatment facility that we are building, given the space constraints in Mumbai. It is unique in its own way.

The second project that we are executing in Mumbai is the Bhandup water treatment facility. This is also a {? 4,000-plus crore ?} project spread across four years, along with operations and maintenance. We will be treating around 2,000 MLD of water there. That is another project.

The third water treatment plant that we are executing is at Panjrapur, near Mumbai. It is a 910 MLD project with a project size of approximately {? 3,400 crore ?}.

All our water projects, along with the EPC element, also have O&M built in, with a cycle of almost 15 years. This gives us revenue visibility during the construction phase and provides annuity income for the next 15 years after construction.

Management: Along with this journey of winning water projects, we acquired a very specialized company called Michigan Engineers Limited and renamed it Welspun Michigan Engineers Limited. This company is a highly specialized water-tunneling company. It is involved in micro-tunnels, segmental tunnels, and rehabilitation—everything and anything related to underground water connectivity and tunneling.

We initially acquired a 50% stake in the company and then increased it by another 10%. We now have more than a 60% stake in the company, specifically a 60.01% stake, and it is a subsidiary of Welspun Enterprises Limited.

After completing the four water projects that I discussed, along with DGT, there is another very unique project that we won in 2023. This was the DGT project, the Dharavi-Ghatkopar Tunneling project. It is unique in the sense that it is a 93-month project and one of the largest tunnel projects in the water segment, with a project value of almost 2,000 crores. Welspun Enterprises bid for and won this project, and the work will now be executed by Welspun Michigan Engineers. This is the kind of synergy between Welspun Enterprises and Welspun Michigan Engineers Limited, the subsidiary that we acquired.

After completing all the water projects currently in our portfolio, we will account for almost 50% of Mumbai's water treatment requirement and almost 15% of its wastewater treatment requirement. This is the opportunity and the market positioning that we will have.

Harsh Rungta – Group IR: Thank you. Please go ahead.

All in all, today we have a significant presence in roads, water, and tunneling. Going forward, our focus will definitely be on water and tunneling, which we believe will present a very exciting opportunity in India.

As far as roads are concerned, we will be far more selective. One of the key hallmarks of our strategy is that we are very selective about the projects that we bid for. We are only looking at large projects with an appropriate margin profile, because our guided margin range is 18% plus.

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There are projects that will be highly competitive, particularly in the EPC segment and now even in some parts of the HAM segment, which we will not consider. We will look only at larger projects with a certain margin profile that allows us to deliver at least 18% margins during the construction phase.

As I mentioned regarding the road HAM and BOT projects, when we divest them, one should ideally evaluate them from an equity IRR perspective. For the road and HAM projects that we divest, we achieve equity IRRs of 18% and more over the entire project life cycle.

Going forward, while we will be selective in roads and look only at large BOT and certain selective HAM projects, water and tunneling will remain major areas of focus for us. Our order book today is about 19,000 crores, of which 55% is in water, 15% is in tunneling, and the remaining 30% is in roads, largely represented by the Pune-Shirur project, which is a large project.

We expect this order book to continue growing at a rate of at least 20% in CAGR terms. This is after adjusting for ongoing execution and new wins, but we believe the order book will continue to grow at a 20% CAGR.

In the last call, we guided for order wins of 8,000-10,000 crores in H2, which is what we are targeting. Our medium-term revenue CAGR will be in the high teens, with an EBITDA margin range of approximately 18% plus. Currently, we are delivering comfortably above 20%, but 18% plus is the range that we are reasonably confident about, given the kind of projects that we choose.

Lastly, we also have an interest in oil and gas through our investment in a joint venture with Adani. This is under an entity called Welspun Adani Enterprises. We have interests in three gas blocks near the Tapti-Daman basin. This has been ongoing for a long time, and the latest update is that, for one of the blocks, we have submitted a revised field development plan. Once we receive approvals, which we expect in the near future, production is likely to commence in this particular block approximately 2 years thereafter.

We have proven gas reserves of 1.1 trillion cubic feet across these three blocks. Production is most likely expected to commence sometime in FY29, with revenue beginning to flow from there.

This broadly covers the entire gamut of our presence. We are happy to take questions. We spent some additional time on this so that everyone gets a fair understanding of everything Welspun Enterprises is involved in, but we have approximately 40 minutes to take as many questions as possible.

Operator: Thank you for the introduction. We will now move to the question-and-answer round. Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from participants who have raised their hands, and then we will move on to the chat box. If time permits at the end, we will take questions that we have received from clients who were unable to participate.

While the questions are being assembled, we have a few questions from our clients. The {? Antasamaria ?} sale was valued at approximately {? 1,000 crore ?} enterprise value and was expected to be completed in Q2 FY27. What approvals or conditions remain, and what is the latest

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expected closing date?

Management: It will be consummated in Q2 and accounted for in Q2. As far as receipt of the cash is concerned, that will happen subsequently, most likely sometime during Q3. As far as the transaction is concerned, it is well on course as per schedule.

Operator: We have a question from Shubham Verma. Please go ahead.

Shubham Verma: Good afternoon. Am I audible?

Harsh Rungta – Group IR: Yes, Shubham. Please go ahead.

Shubham Verma: The Pune-Shirur project has an announced project cost of approximately 7,300 crores. Could you provide a breakup of the total project cost between equity contribution, debt, and other funding sources? Could we also get the expected equity IRR or project IRR?

Harsh Rungta – Group IR: As far as the project is concerned, 5,400 crores is the EPC component, and financial closure is expected to happen soon. It will be funded through a healthy mix of debt and equity. Usually, the ratio is approximately 70:30 or 80:20, somewhere in that vicinity.

If you look at our balance sheet today, Welspun Enterprises has 1,800 crores of cash on its balance sheet. We also made a preferential allotment of 1,000 crores sometime in October last year. Those are currently warrants, which we can convert and receive that cash flow of 1,000 crores as the requirement arises.

As far as the equity portion is concerned, we are well covered under the current plan. The rest can be raised through debt. Looking at our credit rating, we have a double-A rating. We recently received an upgrade from Crisil for Welspun Enterprises' long-term credit rating, and we are at double-A stable today. Therefore, we can also raise debt at very competitive rates.

As far as this project is concerned, execution will begin in the second half of this year. The construction period is roughly 4 years, but the execution contractor we have appointed has been given a mandate of 3 years. We have given them a challenging target.

There is a lot to look forward to. Once completed, this will be a landmark project. As far as the equity IRR is concerned, this is a BOT project. After construction, it will follow the same model, most likely, in which we establish the revenue potential and tolls, and then divest it.

Our model has always been to achieve an equity IRR of at least in the high teens. That is what you can expect us to deliver in this project as well. Based on our calculations and the project's tolling potential at the end of construction, we are expecting a very healthy outcome at the end of construction.

Shubham Verma: We also expect the project to be completed soon. My last question is regarding the Dharavi wastewater treatment project, which is targeted for commissioning by July 2027, and Bhandup, which is targeted for April 2029. Could you quantify the remaining capex or funding requirements for these projects?

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Management: Dharavi and Bhandup are both EPC-led projects. When we say EPC-led projects, we do not require any funding from the balance sheet. We receive a 10% mobilization advance to start the project, and as the project progresses and bills are submitted, we receive the payments. Therefore, there is no capex requirement as such for either the Dharavi or Bhandup project.

Harsh Rungta – Group IR: It is only working capital management that is required to execute these projects.

Management: Even that is covered by the mobilization advances that we receive. There is no requirement to put in money from our end. Only during periods when there are glitches, for example for 5 or 10 days, may we need to fund it. Otherwise, the mobilization advance itself takes care of the working capital requirement.

Shubham Verma: Is management confident that the project can be completed by the targeted timeline?

Harsh Rungta – Group IR: As of now, yes. In fact, for Dharavi, we are hoping to complete it 1 or 2 months in advance, if possible. That is what we are targeting.

Shubham Verma: Thank you very much.

Operator: Thank you. Any participant who would like to ask a question can raise their hand or put it in the chat box. We have one question in the chat box. What is your vision for FY30?

Harsh Rungta – Group IR: As far as FY30 is concerned, we have said that our revenue growth this year will be somewhere in the vicinity of 10-15%. This means that we will be somewhere around 4,000 crores in terms of revenue. We are expecting revenue CAGR of approximately 15-20%. Over 3 years, you can essentially look at something close to a doubling.

Ideally, our focus will remain on water and tunneling. We believe there is a lot of potential in those areas. As far as roads are concerned, we will be very selective. We will remain in these three segments.

Within roads, we intend to undertake more BOT projects, particularly larger BOT projects, and very selective HAM projects that provide the margin profile we are looking for. As far as tunneling is concerned, we currently undertake a lot of underground tunneling, including micro-tunneling and medium-diameter tunneling. However, we are also evaluating the possibility of entering urban transport tunneling for roads, cars, and metros. This is something we are evaluating as a high-potential area for us.

As far as water is concerned, we have primarily been involved in water treatment plants. Going forward, we want to become more technology-driven. Currently, we have technology partners such as Xylem and Veolia supporting us on some of these projects. Eventually, becoming a technology-driven water player is one of the capabilities that we want to build over time.

In water, we also believe that lift irrigation, water treatment, and water transmission have significant potential.

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Overall, we will remain in these three segments because focus is important for us, and we will continue to remain disciplined when it comes to capital allocation. That has been our hallmark. If you look at Welspun Enterprises compared with other businesses in the infrastructure sector, it is our capital allocation and healthy balance sheet that have helped us become an all-weather infrastructure player. This has also translated into healthy shareholder returns over the years.

If you look at the returns over the last 5, 6, or 7 years, they have probably been the healthiest in the sector. That approach and strategy will continue going forward.

Management: To add to what Harsh said, in terms of where we want to be by FY30, or over a slightly longer period, we want to be an eminent and very strong player in the overall urban infrastructure space. Let us look at our journey.

Management: Seven years ago, when we entered the water segment in 2020, we were not present in that segment. We envisaged that water would become a very large opportunity going forward. This is the kind of vision we have. We now see the same kind of potential in tunneling.

On the surface, a lot of things have bottomed out. There is already infrastructure in place, there is limited growth, and there is a lot of competition. The next major opportunity is underground. Even in metros and Tier 1 cities, the opportunities are now moving toward tunneling.

We have entered, and are continuing to enter, this segment. Whatever is required—whether a technical tie-up or a joint venture, in whatever form—we will pursue it to access this opportunity, just as we entered the water segment and saw it develop. This is the kind of vision we have. We think ahead of the curve.

As Harsh discussed regarding capital allocation, that discipline remains very strong. These are the two fundamental areas we focus on. We assess the opportunity at an early stage, enter quickly, deploy all the resources available to us, and maintain capital discipline.

That is how we have evolved into a Welspun infrastructure player from 2016 to date. This is the story that we want to continue going forward.

Operator: We have the next question. What is the opportunity in Smart Ops, and how much revenue potential do you see over the next 3 years?

Harsh Rungta – Group IR: Currently, Smart Ops is still nascent, but it is a very relevant offering. It is essentially a decentralized water treatment solution. Given the small water reservoirs that may exist across the country, it is very relevant that these can also be made usable with this kind of technology.

Currently, it is still scaling up, and we expect significant scaling up. Therefore, I cannot share a 3-year revenue target at this stage. However, you will hear more about it in the future. We are trying to develop more markets and more projects along the way.

For now, this is something that you can stay tuned to. There is no specific revenue target that we are looking at. We still need to establish ourselves further because this offering is highly differentiated and technology-driven.

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There is certainly a lot to look forward to. However, in 3 years, it is not expected to be the biggest driver. It will certainly be a value-added operation and offering for Welspun Enterprises.

Operator: Any participant who would like to ask a question can raise their hand or put it in the chat box. We have a few questions from participants who were unable to participate. First, after the {? Antasameria ?} sale, what is our updated estimate of debt reduction from the sale? Does it remain close to 800 crore, as discussed earlier?

Harsh Rungta – Group IR: I think it is around that amount. Sangeeta, can you confirm?

Sangeeta Tripathi – Company IR: It is around 800 crores. After the monetization, that amount will be removed from the consolidated balance sheet. It may or may not be consummated by Q2. We are targeting consummation by Q2, but there can be certain delays. By the end of this year, however, the accounting and everything will definitely be completed.

Operator: Against our approximate 20,000 crore order book, how much revenue do we expect to execute in FY27?

Harsh Rungta – Group IR: For FY27, we have said that revenue growth will be in the 10-15% range. Last year, we closed at approximately 3,600 crores. Therefore, this year we expect to grow by approximately 10-15%.

Operator: After our Q1 FY27 EBITDA margin of 22.9%, what revenue growth and EBITDA margin range should we assume for the full year?

Management: We have already guided for an EBITDA margin of 18% plus. While we delivered 22.9% in Q1, our medium-term guidance remains an EBITDA margin of 18% plus.

Harsh Rungta – Group IR: As far as FY27 is concerned, margins on a year-on-year basis should not be very different. Broadly, EBITDA growth and revenue growth should be in line and should not be materially different. The 18% plus margin is our medium-term guided range. There may be many new projects along the way, which could also lead to additional growth. As far as this year is concerned, revenue growth and EBITDA growth should be broadly in line.

Operator: What is our FY27 new order target, and how much has been awarded so far compared with what remains in the pipeline?

Harsh Rungta – Group IR: We continue to win smaller projects, particularly in tunneling, which are not always announced. We recently won a large project in the tunneling segment, which was announced to the stock exchanges last week.

This project is from the Ahmedabad Municipal Corporation. It is a {? 320, 330 crore ?} order for the rehabilitation of sewage tunnels. It is funded by the World Bank and is being commissioned by the Ahmedabad Municipal Corporation.

There are two segments, East and West Ahmedabad. There are tunnels across these areas, and this is one of the largest orders that Michigan has won at one time. Michigan's order book is now nearly {? 2,400-2,500 crores ?}. The bulk of it is the DGT tunnel from Welspun Enterprises, followed by

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this Ahmedabad order. There are also other projects under execution involving rehabilitation, pumping, and tunneling.

Management: Apart from that, we expect approximately 8,000–10,000 crores of order book to be added this year, largely in H2.

Harsh Rungta – Group IR: If we are at 19,000 crores today, there will be some execution as well as some order wins. Therefore, the order book could stand somewhere in the mid- to high-20,000-crore range at the end of FY27.

Operator: How do we see the water and EPC mix over the next 2 years?

Harsh Rungta – Group IR: Do you mean the road and water mix?

Operator: Yes.

Harsh Rungta – Group IR: Currently, water is 55%, tunneling is 15%, and roads are 30%. It is difficult to provide a precise mix for the future. It will depend on how we receive projects across these three segments and whether they meet our guardrails. It would be difficult to time or influence the mix.

However, in terms of potential, we believe water and tunneling together will account for more than 50% on an ongoing basis. Road projects will be highly selective and may come from time to time, whereas water and tunneling are areas that we will definitely prioritize because we believe there is significant traction there.

Operator: Can there be a demerger of the water business in the next 1-2 years?

Harsh Rungta – Group IR: There are no such plans, and there is nothing we can share at this stage. Currently, we are an 11,000 crore market-cap company with a 4,000 crore top line, so there is nothing specific that I can share on that front.

If any such corporate action is planned at any point, it will be evaluated in the best interests of all stakeholders and minority shareholders. As of now, however, there is nothing I can share.

Today, we are a diversified player, which allows us to maintain the kind of balance sheet that we have. If we split the company, the balance sheet would also be divided. Therefore, that may not be ideal at this stage.

Operator: Given the supply chain disruption and the construction stoppage in Mumbai during Q1, what are the remaining risks to FY27 execution and margins?

Harsh Rungta – Group IR: As of now, we are broadly on track with what we communicated at the end of the Q1 call. Progressively, things should continue to improve. Q2 should definitely be better, and activity should pick up in Q2. In H2, we expect to make up for any lost ground in H1.

Overall, we expect to be able to meet the commentary and guidance that we provided in the Q1 call.

Management: We will be able to meet the guidance that we have given.

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Operator: How has the temporary stoppage of excavation debris disposal in the Bhandup project affected the plan?

Harsh Rungta – Group IR: That was one of the reasons that affected Q1. These things can happen when projects are being executed in busy places such as Mumbai. There is no further update that we want to share at this stage.

As far as Bhandup is concerned, the project remains on track for completion in 2029, as mentioned.

Management: Regarding Bhandup, as Harsh mentioned, there was an issue in Q1 concerning where to put the excavation debris. We had a problem and needed to find a solution. We are in the process of bringing a crusher to the site. We will crush all the material there and sell it on a no-profit, no-loss basis, simply to expedite the work.

These are the kinds of project management skills and methods that we have to deploy. This is where Welspun comes into play. A problem arose, which led to certain issues, but we then had to determine what to do next. We have to complete our work, expedite it, and meet our deadlines.

At the end of the day, when there is an EPC project, execution is what matters, and we have to execute. Challenges arose, but we have taken them head-on and are now addressing them. This is the latest update regarding Bhandup.

Operator: Do we have any technology tie-up for constructing or operating a semiconductor-grade ultrapure water treatment plant?

Management: These are newer segments in water treatment that we are looking at. As we discussed, water treatment is becoming a very large area. Semiconductor manufacturing is one of the newer areas in which water is required in ultrapure form.

At present, we do not have a technical or technology tie-up specifically for this. However, we are exploring these opportunities across the water treatment segment.

Operator: As there are no further questions, we may end the call. I would like to thank the management team for sharing insights about the company. If participants have any further questions, they can get in touch with the team at Arihant Capital. Thank you.

Harsh Rungta – Group IR: Thank you very much. Thanks, Ronak, and thanks, everyone. Have a good day. Goodbye.

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