"Welspun Enterprises Limited
Q3 FY '24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Welspun Enterprises Limited Q3 FY'24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Salil Bawa. Thank you, and over to you, sir.

Salil Bawa: Thank you very much, and good afternoon, and greetings to all of you. On behalf of Welspun Enterprises Limited, I welcome all of you to the company's Q3 and 9M FY 2024 Earnings Call.

I apologize for any inconvenience caused because of rescheduling this call from yesterday to today. Along with me, I have with us today Mr. Sandeep Garg, Managing Director, Welspun Enterprises Limited. I also have Mr. Saurin Patel MD at WMEPL; and Mr. Lalit Jain, CFO of Welspun Enterprises Limited. I have my colleague, Siddharth Bharadwaj, who Heads IR for Welspun Enterprises Limited.

We hope you have had a chance to review the investor presentation that we filed with the exchange a few days back. It is also available on the company's website. As mentioned, during the discussion, we may be making references to this presentation. Please do review the Safe Harbor statement in the presentation.

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

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

Sandeep Garg: Thank you, and good afternoon, everyone. Welcome to Welspun Enterprises Q3 and 9MFY 2024 results conference call. I would like to wish all the participants a prosperous 2024. First of all, let me apologize for rescheduling this call from yesterday to today due to totally uncontrollable circumstances and acknowledge your understanding and appreciate your commitment to be with us at such a sharp notice. I am both humbled and honoured.

Now coming to the quarterly highlights. Our standalone revenue from operations for Q3 FY 2024 grew by 7% to Rs.584 crores as compared to Rs.542 crores in Q2 FY'24. We continued our profitable performance on the back of efficient execution across both transportation and water verticals. While we have grown sequentially, our revenue has dropped on a year-on-year basis.

This revenue impact is largely due to a combination of unexpected weather-related stoppages in some of our key projects, work fronts not being available due to clients or other foreseen regions as well as delays in availability of some key input materials. Having said that, our team across the transportation and water verticals are continuing their hard work to ensure we improve our execution run rate. Our efforts to overcome the hindrances will set the base for increased pace of execution in FY 2025.

Our financials will be discussed in detail by our CFO, Mr. Lalit Jain, but I want to highlight that on a standalone basis, we have reported EBITDA of Rs.122 crores, which is up by 58% year-on-year basis and 38% quarter-on-quarter basis. And our PBT is of Rs.112 crores. Due to our unique business model, which is the asset-light model, this allows us almost 90% of the EBITDA to be converted to PBT.

The company's profit after tax stands at Rs.78 crores. This unique model of asset light and its outcome will ensure we deliver consistent profits. I'm happy to inform that Michigan Engineers Private Limited has been renamed as Welspun Michigan Engineers Private Limited and the process of integration with Welspun World is on track. Mr. Saurin Patel, MD of Welspun Michigan Engineers Private Limited will also be giving an update on this call.

Now coming to some operational highlights on major projects for the concluded quarter, our HAM project at Aunta-Simaria has crossed 2/3 threshold, and we are confident of completion on or before time. I'm pleased to inform that we have received the long awaited Rs.124 crores COS in late December. I'm also happy to inform that we have completed about 85% of the bridge work. Most of the work balance on the project is related to road, which was held because of the COS not being available with us.

Coming to the other HAM project, which is Sattanathapuram Nagapattinam, it is on track for completion as per schedule, and we have completed approximately 1/3 of the project. As you are aware that there was an issue about Pond Ash not being available for the project, which we have now finally recognized that we will not be able to get and have accordingly made alternate arrangements to do the complete the work from reservoir. We have accounted for this cost in our profitability. However, we have raised a claim against this in NHAI, which we have not accounted for.

Coming to the only EPC work in road or transportation vertical, the Varanasi Aurangabad NH2 work. It is progressing well for its timely completion. I must mention that there is a non-availability of about 11 kilometres of work out of the 193 kilometres at this point in time, which is impacting our revenue recognition.

Coming to our water vertical. Our UPJJM project in the state of UP under the State Water and Sanitation Mission is progressing well despite challenges of multi-location distributed work. And we have crossed the significant milestone of over 50% of threshold household connections.

Coming to Dharavi Wastewater treatment facility in the city of Mumbai, we encountered some unexpected soil conditions, which have led to do the additional work of shore piling and now the project is fully up and functional. We had to slow down the progress of this project due to the soil condition, but now we expect it to progress smoothly.

Coming to the order book. The total order book at a standalone level as of 31 December 2023 stood at Rs.8,500 crores, which includes Rs.1,800 crores of O&M and asset replacements for MCGM STP project or Dharavi project. In addition, Welspun Michigan is also sitting on a healthy order book of about Rs.1,700 crores. Mr. Saurin Patel will detail about this during his address.

We have renamed our road vertical, and now we call it transportation vertical. On future ordering within the transport vertical, we have seen a muted period in the last quarter. Having said this, we see promising road opportunities from NHAI and in the state of Maharashtra in the current quarter. We have placed 3 bids in the recent period, 2 in the transportation vertical and 1 in water vertical.

This includes an exploratory bid for Mumbai Metro Line trial. We are also planning to bid for MSRDC projects in which we are prequalified and are due shortly. While we had expected awarding of some of these bids to conclude in the previous quarter, we remain hopeful of the same concluding in this financial year FY'24.

To sum up, we remain committed to taking on orders and meet our return expectations. We are confident to secure additional orders worth approximately Rs.6,000 crores in both water and transportation verticals put together in this current financial year.

During the quarter, we continued with efforts for development of oil and gas field blocks, housed in the joint venture, Adani Welspun Exploration Limited. Pleased to confirm that we have received the approval of the FDP for our B9 block and are currently in process of finalizing the EDP submission to the regulator for our Block MB-OSN-2005/2 or what we call Mumbai Block.

We are also parallelly working on the plan of evacuation and processing modalities of the hydropower to produce from these blocks. I would like to reiterate that in line with our prudent approach, we will commit future capital only upon fair visibility of commercial viability. To strengthen the organization, we are pleased to inform that we have elevated Mr. Asim Chakraborty as CEO of Transportation Vertical. He is an old associate of Welspun World and of Welspun Enterprises. I'm confident that under his leadership, the transportation vertical will further strengthen and contribute to the growth of company.

As I conclude, I'm delighted to share that Welspun Enterprises was bestowed with award of excellence in road safety construction by Occupational Safety and Health India Awards for the year 2023 in the quarter gone by. Also as a proof of our deep commitment, Welspun Enterprises won the India CSR Leadership Award 2023 for notable accomplishments in sports through Welspun Super Sports Women Program.

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

Saurin Patel: Thank you, Sandeep, and good afternoon, everyone. I am excited to address this forum as the MD of Welspun Michigan Engineers Private Limited for the first time. This name change is a reflection of our joint journey, increasing upon and executing the business opportunities we see ahead of us. I, on behalf of the Welspun Michigan team, assure you that we will be a value accretive partner to Welspun Enterprises Limited.

We currently have 18 projects, which are spread across the micro tunnelling and segment tunnelling, marine, pumping station, rehabilitation of sewer lines and some bridge construction. These combined projects give us an outstanding order book of over Rs.1,710 crores and approximately Rs.170 crores of operations and maintenance. This order book is largely executable over the next 36 months. I must add here that I'm not including close to Rs.75 crores of orders where Welspun Michigan is the lowest bidder.

I would like to reiterate that we foresee vastly larger opportunities ahead. These opportunities are both from new geographies due to Welspun World's wide reach as well as new initiatives that we are evaluating such as working with newer technologies. 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 tunnelling and water rehabilitation projects on a much larger scale.

Historically, we have been a very profitable company and our EBITDA growth over the last 3 years has been a strong CAGR of 33%. In Q3 FY'24, we have delivered Rs.102 crores of total income with a reporting EBITDA of Rs.24.5 crores. Our EBITDA margin in Q3 FY '24 is 24%, which continues from our H1 FY'24 performance. PAT margin for the quarter is at 15%, which we look forward to expanding in the years to come. Our order pipeline is healthy, and we have identified projects worth Rs.20,000 crores, which on a selective basis, we will be bidding going forward.

I would now like to share details on one of our key projects. This last quarter, we have begun a pioneering project journey in a rehabilitation of 100-year-old storm water arch drains of Mumbai City. This project of 14.5 kilometres is being executed using a state-of-the-art material called geopolymer which is a spray on structural lining.

The project size is an estimated cost of Rs.415 crores, and duration is 36 months, excluding monsoons. We're in a joint venture and have a 50% share of the project. We have introduced this technology for the first time in India, hoping to showcase the established advantages of this, such as a longer product life of 50 years, while simultaneously projecting lesser footprint of work at the heavily traffic site, causing a much lesser disruption to traffic and disrupting to business at a much faster application speed.

Truly a no dig application, one in which we specialize. As an engineering solution provider for urban infrastructure needs, we are always on the lookout for advanced technology. And in this direction, we are engaging with global companies to bring in technologies, which are both cost and time effective in the segment of tunnelling and water in general. I shall be happy to share the details once the principles of association are agreed between the parties.

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

Lalit Jain: Good afternoon to everyone and many thanks for being a part of this call. I'm sure you would have had an opportunity to review on our financial numbers published. As Mr. Garg shared, we have continued our profitable performance that we delivered in the first half.

At a standalone level, our revenue from operations for Q3 FY'24 was at Rs.584 crores. And along with other income, our total income was at Rs.607 crores. The reported EBITDA of INRs.122.1 crores which worked out to a margin of 20.1%, our EBITDA has grown by 58% year-over-year, Rs.77.4 crores in Q3 FY'23. As you would have noticed, we have improved our EBITDA margin, over same quarter last year and also over Q2 FY'24.

Our profit before taxes is Rs.111.9 crores, which works out to 91% conversion of our EBITDA to PBT. This is predominantly because of our unique business model. This gives us the ability to retain a very large part of our EBITDA. I'm confident we will continue to scale our operation while being true to this successful model.

I would like to give some colour on our EBITDA margin. We have recognized a claim settlement which roughly adds 200 bps to our margin. These margins are also as a result of our conservative accounting practice. As standard practice, we hold on to contingency till substantial project progress is not achieved.

Accordingly, some increases can be seen in profit margin as the completion cost becomes clearer during project execution phase. We have already given a guidance in the past that we maintain reporting EBITDA margins in the range of 13% to 14%. Our other income has increased by 97% to Rs.23.3 crores from Rs.11.8 crores in Q3 FY23.

This is due to our income generated on current investments. Since we have repaid our debt in the first quarter of this year, finance costs have dropped to Rs.7.48 crores from Rs.19.89 crores in Q3 FY'23. I do not anticipate an increase in interest expenses from this level in near future.

Our effective tax rate will be 25% in the normal course, but for this quarter, it is close to 30% due to additional tax assessments. Our standalone profit after tax is Rs.77.58 crores. Please note this is not comparable with Q3 FY'23 numbers. There was an asset sale transaction we undertook with Actis Highway in December 2022. This resulted in exceptional income of Rs.467.8 crores. Our 9 months FY'24 total income is Rs.1,887 crores and PAT is Rs.221 crores.

Now coming to our consolidated numbers. This is the second quarter of consolidation of Michigan Engineers in the quarter. Thus, our revenue has increased by 2% to Rs.706.7 crores. This reporting EBITDA of Rs.173.5 crores, our PBT before exceptional income had registered growth of 131% at Rs.135.5 crores.

Our consolidated PAT is at Rs.79.9 crores. I would like to mention that due to consolidation of Michigan Engineers as a subsidiary, the contribution of Michigan Engineers towards EBITDA is Rs.25 crores, however, 49.9% of the Michigan rate has been reversed due to minority interest. We have a strong balance sheet with net cash of Rs.906 crores as on 31 December 2023. A reduction of Rs.642 crores as compared to 31 March 2023 is on account of buyback worth Rs.289 crores, payout for MEPL acquisition of Rs.137 crores, followed by an equity investment of Rs.112 crores in ongoing projects and remaining amount used for the working capital.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit from Antique Stock Broking. Please go ahead.

Rohit: Sir, in the opening remarks, you made statements about some prospect orders. We are given to understand that NHAI is now turning back to BOT toll projects and there is almost like 350 billion tenders out for bidding. Welspun Enterprises as a company will it be keen to explore more BOT toll projects or will we continue to stitch the cash contract model?

Sandeep Garg: As I've been maintaining, we are agnostic to the model of work that is available as long as our risk and revenue expectations are met. So short answer to your question is that we are actively looking at the BOT toll projects. Right now, the model itself is under evolution. We have participated in the interactions with the Ministry on the development of this model and hope that the industry's feedback will be taken into consideration when finalizing the final model.

If those are taken into consideration, we will definitely explore this opportunity. Having said that, I would also want to say that for a long time, there has been very low awarding at NHAI level. And hence, I see a lot of competitive intensity initially. So I will definitely wait for the time that will allow me to get my risk and reward equation balanced, which is critical for my business. I hope I've answered the question.

Rohit: Sir, if you could give us a sense of how the prospect or the pipeline looks like across each segment, something like the Maharashtra MSRDC space or maybe the water space, there were some comments about 200 billion Michigan Engineers is looking at, something on waterfront, if you could help us. Those will be really helpful, sir. The prospect number it's definitely really helpful.

Sandeep Garg: So for the MSRDC projects are the 26 packages for which the prequalification was open. We have prequalified for 17 of them. So approximately, we will qualify for about Rs.36,000 crores worth of work in the MSRDC projects. Now if we were to look at the water segment, we have already put in a bid for Bhandup, which is a large value bid in the ranges of Rs.4,000 cores to Rs,5,000 crores.

And we see similar opportunities building up in other states. In terms of the opportunity metrics that we are talking about of Rs.20,000 crores in Welspun Michigan, those are primarily in the other spaces than where we operate as Welspun Enterprises. These are primarily into the tunnelling spaces and water infrastructure improvement spaces. So those are the primary opportunities that we are looking at as well from Michigan. And I'm sure Mr. Saurin Patel can add something towards what this Rs.20,000 crores order is made up of or bid outline is made up of.

Saurin Patel: Yes. So Sandeep, fundamentally, Rs.20,000 crores is sustained with a large contribution from the projected water and sewer tunnels that clients and municipalities all over India are planning to build to augment their current existing facilities as their populations see a dramatic spike in how the people are moving to the cities.

A lot of this then goes downstream to the rehabilitation of existing infrastructure that they've got, which has not been maintained well and needs to be rehabilitated to provide another 3 to 5 decades of fresh life. Coupled with that, the pumping stations that they would have to build to make sure that the grey waters that they are augmenting is treated before it's released into whatever final discharge point they have.

So all-in-all, it's the water space for us that looks to be the most exciting area of execution, and we will be maintaining a strong watch eye on where these jobs come out and bidding them quite aggressively.

Rohit: So moving to the guide part, you maintained that FY25 will be a good year. But can we have a colour of like from the existing order backlog will be 3 billion a month trajectory?

Sandeep Garg: So unfortunately, as I addressed in my opening statement, because of certain things which are the extended monsoons, the non-availability of Pond Ash and some work fronts being held by the clients because of the RoW issues. Certain work fronts that we believe we will be able to unlock during the first 9 months have not got along and the COS of Aunta Samaria has also held us back.

So as you know, these road projects unfortunately we need to prepare the low-value lower levels before you can hit the higher-value top players. We have not been able to prepare. So I do not think that this year we will be able to hit the run rate of the Rs.300 crores per month. I expect the FY'24 to somewhere close to the FY'23 numbers on the revenue side, however, happy to share that on a standalone basis.

On a consol basis, I do expect the numbers to be close to Rs.3,000 crores. While I am happy to share that the EBITDA numbers will be possibly much higher than what was anticipated at the start of the year, and we should not only meet, but exceed the expectations of the investors in terms of EBITDA despite the lower revenue. So I hope I've answered the question.

Rohit: My question was on FY'25 front.

Sandeep Garg: FY'25 I am reasonably sure that on the base of FY'24, which is the close to the numbers of the FY'23 in standalone and about 3,000 in consol basis, we will be able to have an increment of 15% to 20% in FY'25.

Moderator: The next question is from the line of Diwakar Rana from Prudent Equity. Please go ahead.

Diwakar Rana: Sir, in your opening remarks you have alluded that we will be receiving Rs.6,000 crores order in this current financial year. So sir, how confident are you just that we will be back on bagging order in next basically 60 days?

Sandeep Garg: Reasonably confident. So we expect a couple of bids to which we have bided to open in next 10 to 15 days. So we are reasonably hopeful that we will still bag these others before the end of FY'24.

Diwakar Rana: So basically, sir, this includes both road and water orders, right?

Sandeep Garg: That is correct.

Diw8akar Rana: Okay. And sir, one question on the oil and gas blocks, Mumbai offshore 2005. So when will we start recognizing revenue from this block?

Sandeep Garg: See, we are right now in the stage of designing the whole thing and submitting, as announced to the statutory body, our plans. If the plans as we are proposing get approved, we expect at the earliest the production to be in H2 of FY'26. That's the earliest it is possible. And depending upon when the approval comes in, it may slightly get delayed as well. So that's the earliest shortest time frame for production will be.

Diwakar Rana: Okay. Sir, one follow-up on this. So basically, as per you, what will be better for being shareholders of Welspun and Welspun Enterprises to basically wait for if any revenue recognition till FY'26 or to just monetize this asset?

Sandeep Garg: So this balance is always there for an asset-light model like a company like ours. And we generally believe that we have the balance sheet strength, and we believe that if we were to create as we sell our road assets after completion. If we do the extraction of the gas and the fluids before we sell it, we will create that to be value accretive for our shareholders.

So it's our belief and our considered opinion that once we complete and de-risk the buyer from risks of acreage, the reserves and the quality of reserve, the valuations will be far better than if we simply sell on the reserve estimate of a third-party. So given that we would want to create value for our stakeholders and not sell their assets cheap, we would want to develop this asset and realize the real value that we should.

Diwakar Rana: So one question on the financial P&L. So we have reported Rs.18 crores of loss from discontinued operation. So can you please explain from this Rs.18 crores pertains to?

Sandeep Garg: I think I'll ask Mr. Lalit Jain to take this question, Lalit, if you can answer this.

Lalit Jain: Basically, we have sold our one project, Welspun Infrafacility Private Limited MCP project, in which major maintenance provision has been provided for Rs.36 crores, and we have a holding 51%. So this is basically notional loss. Once you will sold remaining equity it will be come back to us so there's no any cash loss in this.

Diwakar Rana: So this will be onetime, right?

Lalit Jain: But it is notional loss. It is not cash loss.

Sandeep Garg: So this is because we still are holding for sale the 51% equity of MCP, the decisions of the future buyer or the current holder of 49% equity put our notional losses and gains to us, which are not really impacting our cash flows or overall profitability of the company.

Diwakar Rana: Okay, sir. Also lastly I want to just congratulate Michigan team to participate in the Uttarkashi rescue operation.

Saurin Patel: Thank you very much. I appreciate it on behalf of the team.

Sandeep Garg: And we, as Welspun are always there for the country. So I think Michigan is adding a few steps in that direction.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, firstly, on the execution, I agree that there are project-specific reasons why we could not achieve the execution. But I don't think there is any infra company in India at this time, which have reported lower revenues in this 9 months compared to last year.

So are we making some mistakes in terms of the project selection when it seems like every project of us is facing some or the other bottlenecks when it comes to execution. And this is significantly below the guided run rate also. So as a whole, something has definitely gone wrong when it comes to our execution side.

Sandeep Garg: Very happy to take this question. It's a very honest question in which I will try and give the answer honestly as we can. Transparency is what we believe will be the best tool. So if you look at most of our peers, they have multiple projects of smaller and larger values, which are parallelly chugging along.

So what happens in their case is that even if 2, 3 projects are slightly not making progresses because of unintended or unforeseen situations, the challenges at the revenue level are much lesser than ours. In our case, we have large value contracts and a fewer contracts because we genuinely believe that the model that we have selected is more amenable to larger contracts than to smaller contracts.

The smaller contract, there is a lot of competitive environment and we cannot get projects at the margins that we need to maintain the profitable growth which we are absolutely committed towards our investors. So the choices that we are left with is are very, very limited either to take the high-value complex projects and create value for you guys in terms of for all our investors and everybody in terms of having higher EBITDA in the industry and converting it into higher PBT by using the right model or else go into a very highly competitive environment and have multiple projects, which will allow us a more stability at the revenue level.

Now as we will grow into this business and we will have multiple offerings in water as well as transportation section, the reason we moved away from the word road to transportation is to address these vagaries that you are right now alluding to. Our intent is very clear that we will want to have orders in space which can allow us to get the returns that we are targeting with the risks not being very high.

Now there can be some up and down on the revenue side, but our EBITDAs and our PBTs and our PAT will remain at least at the PBT and PAT level better than most of the players in the industry. So I think these are challenges that any company on our business model will have, and it will only get solved by us getting into diversified areas and into multiple geographies so that a couple of projects do have these challenges, the revenue is not so impacted going forward.

I hope I've answered the question to your satisfaction.

Sarvesh Gupta: Yes, sir. I mean my only feedback is that it is one thing to fight it out and eventually get what one has bided for in a fair manner. But the time value that the organization spends and doesn't get any execution during that time is also lost in a way. So I guess maybe there are some ways in which we can improve that.

Sandeep Garg: I'm sure we are working as I addressed also in my opening remarks to the teams at Welspun are working to debottleneck and improve this execution rate. But you must appreciate a point that my CFO and myself tried to drive in. Despite the lower revenue, our EBITDAs have more than compensated for any loss of profit for our investors.

So practically, if you look at it, what it means to you is from the same contracts over the period of its execution, we are going to turn much more profit for you by doing what we are trying to do rather than go in with a faster pace of execution and erode the profit margin. So these are the difficult decisions we have got to make on a day-to-day basis.

As I said that I have taken a decision to account in the SNRP project that government is not in a position to give the pond ash, which they were obliged under the well-stated policy, I have gone ahead and took a decision that we will do to complete the project by soil rather than pond ash, absorb that cost and still maintain a very high profitability because that is the way the bid was put in.

And we have put in a claim on NHAI, which is a large value claim, but not accounted for. So we are practically doing a very conservative accounting and maintaining a reasonably high level of profitability so that our investors and stakeholders get the return on the investment that they have made on us.

Sarvesh Gupta: Understood, sir. And that brings me to my second question basically. So even last quarter, which was less than 3 months back, we were talking about 10% to 11% EBITDA margin. Now this 9 months, we have achieved 14%. This quarter, we have achieved 17% and even if I look at the internals, our gross profit has increased from 19% to 30%, employee expense has also increased from 5% to 7%.

Other expenses have gone up from 6% to 9%. So there are a lot of changes, which has come into the P&L, and it's very difficult to understand what is a normalized sort of levels for all these P&L items. So it would be helpful if you can just walk through that. Where are we proposing to reach with all these rapid changes in just 9 months and even from last call to now from 10% to 12% EBITDA margin guidance to achieving 14% in 9M. So how should we pencil it and look at all of this?

Sandeep Garg: So although I would encourage you to have a one-on-one conversation with our CFO and our investor team to get into the specific details, but at a macro level, I would want to answer this question in these words. Number one, that our guidance for the EBITDA margins on our medium to long term remains at about 13% to 14%.

This year is a bit exceptional because certain contracts, which were closer to completion, we could reverse certain costs because of better settlements and hence, report better profit margins. We have settled certain claims as well. The second thing that I would want to address this with is that in terms of our projects execution, we are very conservatively account for all the costs and risks and contingencies or initial things of our project.

As soon as they are -- our cost to completion becomes more apparent, and we are able to release our profitability in terms of from the contingencies and the risks that we have provided for, most of our projects, we see a gradual increase of profits. So that's the way the conservative accounting works for us. So this slight variations in profit levels of the project will be determined in what phase of execution those projects are.

In terms of the cost of manpower vis-a-vis the last quarter to this quarter, I think we have a variable pay concept. And last quarter, because the complete variable pay was not people who are not entitled to complete variable pay, there was a reduction in the cost. So there is no substantive increase in the cost. So I don't think there is any substantial increase in the manpower cost.

So we have a stabilized working on the manpower cost per se and my team would be very happy to take you through the normalized numbers that can happen that you can take for on a regular basis, if that is what you would expect on an annualized basis, quarter-on-quarter notwithstanding.

Sarvesh Gupta: Sir, and last question is on FY'25 revenue guidance. So I think my -- earlier, we were thinking that we should be able to do Rs.3,600 crores, and that was I think, excluding Michigan itself. Now we are talking about Rs.2,700 crores odd in this year. So next year in FY'25, are we only thinking about Rs.3,200 crores, Rs.3,300 crores excluding Michigan or is it like --

Sandeep Garg: As you said, we have met with some unforeseen circumstances, and I would want to give a guidance only on 15% to 20% increase on the number of FY'24, which are closer to FY'23 numbers on a stand-alone basis. The attempt would be to improve upon them, but I don't think we will want to commit to that right now.

Moderator: The next question is from the line of Amit Shah from Nuvama. Please go ahead.

Amit Shah: So we saw at a group level that the green hydrogen business that we were earlier exploring, Welspun Enterprises not going ahead with that, considering that it is highly capital intensive, but it is still growing at a group level.

So I just wanted to understand, are there any synergies of building the plant or any orders coming in from this project at a group level, one. Also, what I wanted to know was, since we have dropped this green hydrogen project, are we still looking for --

Sandeep Garg: I lost you in between after that we have decided as Welspun Enterprises to stay away from green hydrogen. And I lost you. Can you complete that question.

Amit Shah: Sure. So also what I wanted to understand was, apart from the green hydrogen things. Okay. So my question was, do we have any synergies at the group level wherein the green hydrogen is still getting built by the Welspun Group itself. So from an infrastructure side, any infrastructure opportunities, orders arising out of that, if at all, we have any expertise there in building of any such project, one? And apart from the clean hydrogen thing, are we looking at any other renewables area as well.

Sandeep Garg: So I can answer the question to the extent that I know. The right person to answer these questions will be Mr. Kapil Maheshwari, who is heading the green hydrogen or new energy business. However, as a principle, the group does not believe in cross contracting from one vertical or one company to another, and we operate on a pure hands away kind of a business.

So anything that we will get even if it's from a group company will be on its own merit. I don't foresee anything happening. We keep our interactions within the group as a related party transactions to the least possible levels. So that's what I would want to let you know. And that's the principle on which the whole group operates.

Amit Shah: Okay. And sir, if you can highlight any other area of renewables are we still looking or that's a completely close thing now?

Sandeep Garg: At Welspun Enterprises, we are not looking at any green or otherwise renewable energy space. I am sure Mr. Kapil Maheshwari is definitely looking at the complete spectrum. And I would encourage that through the IR team, you interact with them and see where they are taking this business and see if there's an opportunity for you to contribute to their success.

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: So most of my questions have been answered. Just a few questions. Sir, as you said, that we face some loss that we could not complete in Q3. So could you quantify that how much would that be? And would that all come in Q4 or will it be lower to FY'25?

Sandeep Garg: So we don't believe that because the lower layers of roads, etcetera are not ready. And similarly on Dharavi, the soil did not behave the way it was expected because of the soil testing, and we have to go for shoring. So those lost times, will we be able to recover that revenue in Q4 looks highly unlikely.

And that is why I lowered down the guidance. That revenue has gone nowhere, but it will get recognized in the FY'25. However, we have become conservative in giving the guidance, and we would want to stay with the guidance that we are going to see an increase of 15% to 20% on FY'24 actual revenue in FY'25. I hope I've answered the question.

Darshil Jhaveri: That's fair enough, sir. And sir, what you are speaking in terms of FY'25 guidance was on a standalone basis, right? So how would we guide for Michigan, would that be on the same level?

Sandeep Garg: So in Michigan, we expect the revenues to be in the ranges for the next FY'25 to be in the ranges of about Rs.500 crores as compared to about Rs.375 crores Rs.380 crores this year.

Darshil Jhaveri: Perfect. And Michigan has similar type of margins in our current business?

Sandeep Garg: Their EBITDA margins are at the level of about 21% to 24% and their PAT is around 15%.

Darshil Jhaveri: And sir, just one last question, sir, with all that happening right now, maybe something related to election, do we see any kind of risk that like the order flow might be reducing or something or any kind of overall risk that you see in the company currently that macro or micro whatever you could see.

Sandeep Garg: -So the way I look at the business right now, that obviously, during the phase of election, which is going to be 2 months, 2.5 months, the awarding will get slow. But given that we still have at least 2 months ahead of us, I don't see that my FY'24 target of booking about Rs.6,000 crores is at risk until the clients delay to a large extent to what their forecasts are. I see practically very low risk on that.

Having said that, during the election phase, obviously, the awarding will get stopped. However, in the FY'25, it will pick-up and it will more than cover for the backlog that has been created because the infrastructure push by the government remains unchanged even during this interim budget, if you see the allocations have gone through by almost an 11% increase.

Moderator: The next question is from the line of Yug Mehta from AP Capital. Please go ahead.

Yug Mehta: Sir, last quarter you mentioned some projects from MSRDC and water treatment projects in Bhandup. Is there any progress on those leads?

Sandeep Garg: So in terms of Bhandup, we have already bid it. The project is now close to the commercial bid opening. Hopefully, in the next 10, 15 days, that should open. So we are very hopeful about it. In terms of the MSRDC projects, we have qualified for 17 out of the 26 projects, we stand prequalified, and we will be bidding the biggest due on March 1. Hopefully, it will get awarded before the end of FY'24, all going well.

Yug Mehta: Sir, we have about Rs.930 crores of cash available. Can you provide some detail how we are planning to deploy this cash?

Sandeep Garg: So we do have a commitment of about Rs.230 crores of the balance capital towards the equity requirements on the projects in hand. The balance capital allocation is a decision of the board, which they will decide for FY'24. And once it is known as to how where they would want us to allocate the capital, we will share with all of you in a transparent manner.

Yug Mehta: Okay. Sir lastly, sir, margins that we have booked on projects, is there any risk of reversal.

Sandeep Garg: Lalit, would you want to take it.

Lalit Jain: There is no reversal because we are doing the conservative accounting. There is no question of reversal in future.

Sandeep Garg: So just to add to what Lalit has said, we are very conservative in accounting for our profits. We don't account until unless we are reasonably sure that there is no need for any reversal. So we don't foresee any reversal.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Mr. Sandeep Garg for closing comments.

Sandeep Garg: Thank you. I want to thank all participants for joining us despite having to reach you on this call today, and I hope we have been able to address all your points. We remain committed to creating value for our stakeholders, and our focus is on delivering improved return on equity and return on capital in cost.

I look forward to speaking to you once again in near future. Meanwhile, please feel free to reach out to our Investor Relations team, Siddharth, Salil or SGA, our IR agency, for any questions or feedback. Thank you and prosperous 2024 for all of you.

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