# "Kalpataru Power & JMC Project Q1-FY13 Earnings Conference Call"

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**MODERATORS:**

Mr. Manish Mohnot – *Executive Director, Kalpataru Power Transmission Ltd*
Mr. Kamal Jain – *President & CFO, Kalpataru Power Transmission Ltd*
Ms Bhoomika Nair –*IDFC Securities Limited*

**Moderator** Ladies and gentlemen good day and welcome to Kalpataru Power and JMC Projects Q1-FY13 Earning Conference Call hosted by IDFC Securities Limited. As a reminder for duration of this conference all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '*' followed by '0' on your touch tone telephone. I would like to hand the conference over to Mr. Bhoomika Nair from IDFC Securities. Thank you and over to you ma'am.

**Bhoomika Nair** Good morning everyone. Welcome to Kalpataru Power and JMC Q1-FY13 earnings call. The management is being represented by Mr. Manish Mohnot, Executive Director and Mr. Kamal Jain, President and CFO. I would now like to hand over the call to them for their initial remarks, post which we will open up the floor for Q&A. Over to you sir.

**Manish Mohnot** Good morning everybody. We have declared the Q1 results last week and I'm sure all of you would have seen the results for both KPTL and JMC. Before proceeding for the question answer session I would take you through the key highlights of the company and some of the recent developments. In Kalpataru Power we have achieved 19 to 20% sales growth which is what we had projected at the beginning of the year so we had projected 15 to 20 and we are in that range and the sales growth has come both in execution in domestic as well as overseas projects and also increased contributions from some of our segments like railways. On margins front we have achieved margin in excess of 10% and this is after taking an impact of closer to Rs 5 crores at the operating cost level due to FOREX volatility without that we would have been in the range of 10.7 to 10.8% and just to be very clear the hit is not actually a timing issue, it is not an expense issue, it is something which will get reversed over a period of time, we have achieved EBITDA in the range of 70 crores and our net profit has been in the range of 27 crores. The total MTM loss which we have taken in the books is around 13 crores out of which 5 crores is at the operating cost level and 8 crores in the interest. Going forward we believe that we should be able to achieve 15 to 20% growth minimum in the current year if not better than that. If I looked at the results of JMC we have continued to grow on the top line with more than a 50% growth which was projected but the margins have been severely impacted due to the volatility in commodity prices primary because of steel, cement, aggregate and sand, we have not been able to pass through a lot of this cost to the client's given the nature of the order book as well as a timing issue. From order book prospective our consolidated order book is in the range of Rs 11,600 crores and we are favorably placed in 5 or 6 large orders both in KPTL and JMC so next quarter you should see some more orders coming in. In the last quarter we have entered one more new country Thailand by securing an order of Rs 280 crores and we have got some projects from Power Grid also. In JMC we have got one very good strategy order from DMRC which is for Metro Rail worth around Rs 400 crores and besides that we have got other orders for Rs 200 crores. On our BOT assets our Haryana BOOT transmission asset has already gone live and we have started earning the income on it. On the road BOOT projects out of the 4 we have achieved financial closure for all four BOT the road projects out of them one of them should go live in terms of annuity collection as early as Q1 of next year and two more in the next year in Q3 and Q4 the fourth one might go to 14-15. Our Raipur plant is on track and we believe that we should be able to have production from Q3 onwards we had projected September we would be in that range of September-October, so Q3 onwards you will see additional production coming in from that plant also, when our capacity would go up from 1, 08,000 MTs to close to 1, 40,000 MTs. I think with this update I will be happy to open the floor for Q&A session.

**Moderator** Thank you gentlemen. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. We have a first question from the line of Renu Baid from B&K Securities, please go ahead.

**Renu Baid** My first question is on the revenue side for KPTL, if you can broadly share how the mix was within the domestic and international for you?

**Manish Mohnot** If you look at it from a sales perspective, among Rs 700 crores, T&D was closer to 87% revenue and I will give you the breakup of within T&D in a minute and 11% was infrastructure which was railway and pipeline and 2% is DMS, DMS has been in the reducing trend as the strategic reasons. Out of the 87%, - 60% of it has come from domestic and 40% is overseas.

**Renu Baid** And probably that is the reason why apart from input price pressure on the margin profile has as you mentioned has been around 10% levels?

**Manish Mohnot** I think it is a mix of both margin profiles with domestic or international in totality margins some projects are low some projects are high but in totality it is still in the range of 10 to 11%.

**Renu Baid** So while we are seeing a sequential improvement in the T&D margins from approximately 8% to 10% levels adjusted for FOREX we should be able to broadly maintain these margins at 10 to 11% levels?

**Manish Mohnot** For the current year definitely yes.

**Renu Baid** Biomass was a marginal loss so any particular reason on account of feedstock or how is the issue being in Biomass?

**Manish Mohnot** There has been one particular point on the Biomass, the carbon credits which we earn on biomass there is a new accounting policy which says that the carbon credits can be taken as revenue only once they have been certified and are typically certification process which takes 3 to 9 months for every year. So there is a big change in because of which you have seen a impact of around 70 odd lakhs on revenue and profit as well so it is only shifting of time so what has come in Q1 would now come in Q3 or Q4 or something like that and on an annualized basis I think we should be on track.

**Renu Baid** But probably there could be even 2nd quarter and will have a similar kind of an impact till the CR is certified?

**Manish Mohnot** Sure.

**Renu Baid** Probably 1st half numbers could be missing on a year-to-year basis?

**Manish Mohnot** On the Biomass side yes and you could have a bigger impact coming if the monsoons continue to be the way they are, I do not know the answer but we will have to keep our fingers crossed. Water availability to the plants will become a problem in case the monsoon continues to be the way it is.

**Renu Baid** But in terms of securing more orders and diversifying with geographically outside how is the outlook in terms of pipeline projects in MENA and American markets, CIS countries today?

**Manish Mohnot** From the order bidding perspective I think right now we have bid for orders more than Rs 3000 crores in different parts of the world excluding India and some of them are in new regions, we are already L1 in 2 orders which are in two countries and I expect those orders to come on in Q2. From a visibility prospective MENA and CIS they have a lot of tenders Middle East not many but there are a lot of them are expected in Q2 and Q3, so Middle East MENA as well as CIS I think there is enough visibility for the next 9 to 12 months in terms of order bidding.

**Renu Baid** And has the competitive intensity increased in these markets compared to last year or it would be at the similar levels?

**Manish Mohnot** I think internationally competitive intensity is at the similar levels I would not say it is improved in any form, it will be at similar level but the opportunity looks to be growing, it is much better than what is was in the previous years in terms of bidding levels so hopefully we should get a better chunk of orders from a larger order book prospective.

**Renu Baid** And also the working capital side sequentially we have seen increased in debt as well so that will be added increase in the working capital and receivable issues or how is it on that front?

**Manish Mohnot** Typically if you look at our business and is not now if you look at the last 5, 7, 10 years history Q1 and Q2 you always have this impact of working capital becauseQ4 is where the client pays you the maximum, Q4 is where everything happens in terms of cash flows. Q1 and Q2 would always continues to be higher working capital, higher inventory all of that to be at higher levels but it should improve going to Q3 and Q4. Our year end targets is that we want to keep debt at that level is 500+/minus crores with the 15 to 20% growth as far as standalone KPTL is concerned.

**Renu Baid** But there is no issues in terms of receivables from any particular client domestically because of SEB issues related?

**Manish Mohnot** Our exposure to those kinds of client is very minimum where ever we are working also it is primarily funded by PFC / REC but as of today there are no issues on that.

**Renu Baid** If I can possibly squeeze in long-term wanted a question on JMC's margin profile and your overall guidance, the numbers have been in stark contrast. Is there any implication of this because at your own in-house BOT assets or how is this dent in profitability in JMC?

**Manish Mohnot** The dent is primarily because of the increase in prices. Of all the basic commodities look at sand, look at aggregates, look at cement, look at steel, the way the prices have gone up on variable priced projects we are not able to pass them through to the clients because the indexes have not caught up and things like that. I do not think that the dent is only because of the BOT projects because BOT projects to a certain extent we also have back-to-back sub contractors. But the primary reason for the dent is the raw material volatility because on the top line if you see we have achieved what we had budgeted. Our salary cost is similar to what we were at previous year which means that people have not increased and we have achieved similar levels of top line. The hit is primarily in material consumed only.

**Renu Baid** Because sequentially if you look at a despite strong execution both the quarters margins coming down approximately 7 to 7.5% levels to just about 5% levels. Once you understand that there is a lag but on the full-year basis you think margin would be able to back at about 7.5 or 8% levels or probably for JMC the margins guidance will have to be trimmed downwards?

**Manish Mohnot** I'm sure that the margins guidance would have to be trimmed down. I do not see this because some of this majority or JMC you cannot catch it back unlike Kalpataru where FOREX it is a lag issue or Biomass where CER is the lag issue. JMC a lot of it is not got to do with the lag it is the pricing which we would not be able to recover it back, so we won't be reducing our guidance to more than the range of 6 to 7% from 7 to 8% as far as JMC for the current year is concerned?

**Renu Baid** And with the working capital and overall debt remaining at similar levels?

**Manish Mohnot** Yes working capital and debt is under control so I do not see major issue coming up there achieving top line working capital, debt, salary issue all of them are under control. Our biggest hit is going to be in the volatility in this prices including sand I do not know whether you're aware but sand prices across the country have gone up by ranging from 50 to 100% in the last 12 months.

**Moderator** We have the next question is from the line of Anubhav Gupta from May Bank, please go ahead.

**Anubhav Gupta** What was the order inflow of both KPP and JMC in Q1?

**Manish Mohnot** KPP got orders was more than Rs 660 crores in Q1 and JMC we got orders more than Rs 600 crores in Q1, so total order inflow for both of them put together was in the range of Rs 1275 crores.

**Anubhav Gupta** In the last quarter we saw that the backlog execution was quite smooth in KPP, Kalpataru revenue growing by 20% year-on-year, JMC growing by 50% year-on-year, so you think that in the current environment is kindly continued for the next 2-3 quarters of FY 13?

**Manish Mohnot** KPP definitely 20% is something which we will achieve, given that last year or so we had not done significant in terms of top line growth and we had a very good order book visibility today with the right mix of domestic and international. JMC might not be 50 by the end of the year but definitely in the range of 30 to 40% as far as the top line revenue growth is concerned.

**Anubhav Gupta** On that Haryana BOT project what was the contribution to revenue and the profits in Q1?

**Manish Mohnot** Q1 I think if you look at, we are not presented consolidated numbers but at the BOT level we have earned around Rs 13.5 crores as revenue for the 1st quarter for the SPV as a whole and basically would have EBITDA margins in the range of 80%+ for that company. Actually EBITDA would be much higher interest is a bigger cost, so you would have PBT margins more in the range of 8 to 10 % for the company.

**Anubhav Gupta** For the full annual basis can we assume that the revenue will get 13.5 crores into 4?

**Manish Mohnot** Yes. For the SPV as a whole out to which we have 51% state on the consol basis we get only that much.

**Moderator** We have the next question from the line of Pranav Gokhale from Religare, please go ahead.

**Pranav Gokhale** This order which we have got for JMC from DMRC could you please highlight what is the scope of the order for JMC and how much time will it take to execute the order and few of the details on the order please?

**Manish Mohnot** The DMRC order is for elevated viaduct of around 9 km at 6 station buildings in Delhi of around Rs 400 crores and we have around 30 months to complete the order. We were L1 with a small difference to our next L2 guys less than 1% level so this order which we just got an work would begin sometime in the next quarter or in the current quarter and we have 30 months to finish the order.

**Pranav Gokhale** If I understand the change in the net working capital or the increase in the net working capital is it largely to do with that you are paying off your creditors earlier and then debtors are taking time or what actually contributes to this incremental working capital?

**Manish Mohnot** This is JMC or Kalpataru?

**Pranav Gokhale** Both.

**Manish Mohnot** I do not think that we are paying creditors before than what is the payment terms I do not think the current environment anyone would do that. It is a mix of 3 things one is your receivable cycle from as far as your clients like PGCIL and SEB's are concerned their payment cycle typically is much higher in Q3 and Q4 as compared to 1 and 2 right so when your work continues the payment typically happens in Q3 and Q4 that is the nature of the industry, so that is why it has gone up and second some stock levels also because we revisits the stock levels for the entire year at the beginning of the year based on our annual plan and given that steel can not be hedged that typically Q1 you keeps stocks you believe are required on fixed-price contracts for the entire year and then take a call accordingly.

**Pranav Gokhale** So incrementally on JMC if the margins are expected to be downwards do you expect JMC on a year-on-year basis to report at least a higher profits than what they had delivered in 12?

**Manish Mohnot** Definitely yes, given that 30 to 40% growth would happen even with that 1 to 1.5% reduction in margins on a Y-o-Y basis I believe that they should be slightly higher than what we reported in the previous year.

**Moderator** We have the next question from the line of Sanjeev Panda from Sharekhan, please go ahead.

**Sanjeev Panda** Just to look at the interest cost that has gone up, do we have any FOREX that we have adjusted there or how is it?

**Manish Mohnot** There is a FOREX adjustment of close to Rs 8 crores which has come in the interest cost and that is something which due to with interest cost looks higher, i personally believe that this should all get recouped in the next 3 to 4 quarters given that our export portfolio is so bright but yes, current quarter may have had around Rs 8 crores hit in the interest cost on the FOREX.

**Sanjeev Panda** This hit is primarily because of the pricing difference or like how is it like is it because of the price movement?

**Manish Mohnot** It is primarily because of the PCFC and the buyer credit loans which we avail for our export business which are available at a very attractive price for all exporters now we need to do a mark to market of that at the quarter end because by the time we get the money we obviously give the money in rupee at that rate but we need to do MTM of all of this loans at every quarter end and that is where it has hit in as far as the interest is concerned.

**Sanjeev Panda** So what is the effective interest purely interest if we look at excluding this other adjustments? What is the effective rate we are paying at this point of time on a blended basis?

**Manish Mohnot** Our total interest rate is in the range of 10 to 10.5% including what we have bid additional for this PCFC and all of that it is more in the range of 10 to 10.5%.

**Sanjeev Panda** We have seen promoter buying some shares on the last couple of months and then also we saw some of the announcement where some of these shares being pledged could you please throw some light regarding the bit round of this?

**Manish Mohnot** Unfortunately we do not have complete clarity on this because this is something which is the promoters call more than we know that the shares pledged increased at the end of the quarter but my belief is that it might have to do with the pricing of the shares more than anything else because the percentage increase is similar to the percentage reduction in the share price that is my belief but I do not have a concrete answer from a strategic perspective as to what the promoters are doing.

**Moderator** We have the next question from the line of Kirti Dalvi from Enam Asset Management, please go ahead.

**Kirti Dalvi** If you could give us like-to-like figures for your MTM interest for the last quarter previous year same quarter, if we had Rs 8 crores MTM loss in this particular quarter your Q1 F Y12 would have had some loss because since our debt has gone up our interest cost has to be higher if we exclude this MTM loss the interest cost becomes quite similar so was there something like this in the last quarter as well?

**Manish Mohnot** Yes there was from what I remember it was more in the range of Rs 1.5 crores but I have Kamal I will ask him to clarify, what I remember it was more in the range of Rs 1.2 crores.

**Kirti Dalvi** What is our consolidated debt now?

**Kirti Dalvi** Consolidated debt Kalpataru, JMC and Shubham put together more in the range of Rs 1250 crores.

**Kirti Dalvi** So it has remained more or less constant versus your Q4 results?

**Manish Mohnot** It has gone up because Q4 results are much lesser.

**Kirti Dalvi** If I'm not wrong Rs 1270 crores was the figure for the year and consolidated?

**Manish Mohnot** I'm extremely sorry it has to be Rs 1700 crores.

**Kamal Jain** Consolidated debt now is Rs 1500 crores.

**Kirti Dalvi** In our annual report we had mentioned that we are planning to increase our SSL capacity over the next 2 to 3 years so and including our equity investments due in our projects what is our consolidated CAPEX excluding the BOT investments and the amount which we would like to put in this year?

**Manish Mohnot** Our consol CAPEX Plans for all the three companies put together is in the range of 200 crores out of which 100 crores would be for Kalpataru, 40 to 50 JMC and 50 to 64 for Shubham. And this 100 crore includes the Raipur plant for which we have already raised money from QIP funds, the consolidated CAPEX excluding the BOT would be in the range of 200 crores.

**Kirti Dalvi** 200 crores for the BOT projects, is it?

**Manish Mohnot** No, excluding BOT.

**Kirti Dalvi** And only for BOT?

**Manish Mohnot** The BOT is additionally equity which we need to put an end currently, it is closer to 100 crores out of which I think we have already pumped in 30 crores in Q1 and 70-80 crores we would plan to pump in over the next three quarters.

**Moderator** We have the next question from the line of the Chinmay Gandhre from KR Choksey, please go ahead.

**Chinmay Gandhre** On the standalone levels what could be the FOREX currency loans?

**Manish Mohnot** All put together it would be more in the range of 20+ million dollars.

**Chinmay Gandhre** Primarily short-term or long-term?

**Manish Mohnot** Primarily short-term.

**Chinmay Gandhre** But the repayments would be coming in this quarter then and dollars stay at that the similar level then we would not be able to reverse it right?

**Manish Mohnot** Yes, it would not be as short term as one quarter it would be in the next 6 to 9 months more as compared to the 3 months.

**Kamal Jain** It can be rolled over for the next six months.

**Chinmay Gandhre** And JMC no foreign currency loans?

**Manish Mohnot** We have a small foreign currency loan but much which is fully hedged so there is no impact of that.

**Chinmay Gandhre** And debtors what are our debtors on the stand-alone level?

**Manish Mohnot** At stand-alone levels, our debt levels for Kalpataru Power or for JMC?

**Chinmay Gandhre** Kalpataru Power?

**Manish Mohnot** Kalpataru Power is more in the range of Rs 1450 crores including retention.

**Chinmay Gandhre** Shubham if you could share the results highlight what kind of sales and margins?

**Manish Mohnot** For the first quarter in Shubham one of the things which we had planned was acquiring new locations in terms of growth and in seven locations we have already started our construction and we expect that these assets totaling to around 100,000 tons should be up and running by Q2 end and as far as revenue and growth is concerned we have achieved a 50% growth in top line in Shubham and operating margin has been more at 14% levels so from a perspective of what we had planned in Shubham we are very close to it so you look at Q1 FY 13 as compared to the previous year we were around Rs 38 crores top line and that PBT is in the range, previous year was -0,5 this year it is positive Rs 0.7 crores which is around Rs 70 lakh , EBITDA margin is in the range of 14%.

**Chinmay Gandhre** And what would be your further guidance for Shubham?

**Manish Mohnot** We expect top line to grow by around 30 to 35% and we expect EBITDA margin in the range of 15 to 16% as far as Shubham for the entire year is concerned.

**Moderator** We have the next question from the line of Madan Gopal from Sundaram Mutual funds, please go ahead.

**Madan Gopal** Can you elaborate on the order pipeline or the bid pipeline in the metro projects particularly?

**Manish Mohnot** We have submitted tenders in a few states, we lost a few of them, we lost Chennai which was bid last quarter very close we were L2 in a couple of them can be lost that, Delhi we have won amongst 2, Bangalore we are already working on two of them and we have seen interest from four or five states right now although I do not see any tenders being bid in the next month or so but we have seen interest from 4 to 5 states so in Q2 or Q3 at least we should see some tenders coming up around the.

**Madan Gopal** Which are these states, can you name them?

**Manish Mohnot** We have some interest coming from Tamil Nadu, some coming from Gujarat and something happening in Maharashtra also, something in West Bengal also.

**Madan Gopal** Maharashtra there is this Navi Mumbai project?

**Manish Mohnot** I would not have the exact details but yes I am aware of that there are a few tenders which are floated.

**Madan Gopal** And the other one after Maharashtra you mentioned?

**Manish Mohnot** West Bengal.

**Madan Gopal** How are you seeing margin in these metro projects, you will be bidding for the elevated corridor, right? So what the margins will be?

**Manish Mohnot** There is intense competition even on the metro projects. From margin perspective our probability of getting higher margins will be very remote. It is competition what it is all about productivity and maintaining share making sure that you deliver it on time then you might be able to achieve at least what you have budgeted.

**Madan Gopal** They generally give complete pass through on these for increase?

**Manish Mohnot** No, I think each tender is different but majority of them there is no pass through.

**Moderator** We have the next question from the line of Bharat Sheth from Quest Investment, please ahead.

**Bharat Sheth** Sir, on JMC I have a couple of questions, if we're looking last 3-4 quarters the margins are continuously declining so are as you rightly said they are raw material but now whatever order that we have won in last 3-4 quarters, so how is the margin built up in that or at this level only 6% to 7%, can you highlight that?

**Manish Mohnot** At the bid stage a lot of these projects had margins which were higher than this, more in the range of 8-10% except for some strategy tenders which would have taken a lower price but today after looking at whatever increases happened in the last 6 to 9 months I think the zero-based margin for lot of them would be in the range of 6% to 7% what I had indicated.

**Bharat Sheth** So whatever order book we have, we should assume margins around 6% to 7%?

**Manish Mohnot** On a totality basis, there will be some orders which might went as high as 10% to 12% there might be some which might be at 5-6 levels so on totality basis 6 to 7%.

**Bharat Sheth** The other operating income in the JMC has shoot up substantially on Y-o-Y basis from around 2 crore to 8 crore, so what is behind that?

**Manish Mohnot** I think it is primarily got to do with the sale of materials, typically construction material scrap selected once in a quarter, once in six months so it typically a lot to do with that, so on annualized basis you wouldn't be a big impact on there.

**Bharat Sheth** About borrowing substantially Q-o-Q has shot up in JMC, it has almost gone up by Rs 110 crores?

**Manish Mohnot** I think it is primarily because of working capital growth so if you look at it from a growth perspective given the 50% growth and even the similar number what we did in Q4 from that perspective it doing to growth and working capital other than Q1 because that's where you have clients who are still in the stage of discuss with bankers and payments always get delayed so I think it is more with related to working capital, there is no major issues there.

**Bharat Sheth** For JMC can you highlight, I mean, how is the order pipeline and in particularly on the industrial segment and BOT end as well as metro?

**Manish Mohnot** If you look at the order book today, our total order book at JMC in the range of Rs 5500 crores, the order break up primarily if you look at it the roads and infra as around 40% and industry and building is around 50% and power and railways put together is around 11%.

**Bharat Sheth** How the pipeline?

**Manish Mohnot** I think on the industrial building side we have seen tenders in some part of the country and I think there we should be able to sustain this kind of order book at least for the next 12 to 18 months. On the road side, yes we have not seen many tenders come up in the last 3-4 months but we see a lot of tenders coming up in Q2 and Q3. Power generation definitely there is slow down in terms of EPC contracting because not many new plants have being set up and not many new orders are coming in. Railways with the lot of traction so out of these four areas, roads, industrial and Railways you should be able to maintain similar kind of numbers going forward. Power is something which we will have to wait and watch.

**Bharat Sheth** And in the margin differential is also different in different segments?

**Manish Mohnot** Yes it is, to great extent, industry and building margins are better than the others segments on given the nature of a contract and given that a lot of projects there, there is a steel, cement is free supply from the client, so industrial and building typically margins are better. The other sector the margins are lower as compared to industrial and building.

**Moderator** We have the next question from the line of Rahul Garg from HSBC Securities, please go ahead.

**Rahul Garg** I wanted to understand the general terms and conditions in your variable price contract in JMC? Just want to understand what all price increases can you pass through and which one you can't?

**Manish Mohnot** There are three kinds of projects which we have in JMC, one is steel and cement is a free supply from the clients so we have no hit in terms of anything. Second is which are fixed so all the hits are us including the BOT projects and all of that and third is variable. When you speak of variable there are two kinds of projects, one which are linked to a typical index which is WPI index or any of those and the second which are linked to specific index is related to steel, cement, primarily related to steel. On the WPI index our ability to pass through a lot of the price increase has not been very visible because while the index has gone up only by 9% to 10% in the previous year, the prices have gone up 30% to 40% in some of the areas and sand as high as 50%. So whichever projects are there in WPI index, we believe that we might not be able to pass through the entire price increase to the client wherever we have projects we are linked to some kind of base index on anything like that on steel or any of those our ability to increase pass on the prices is much, much better.

**Rahul Garg** But even then, you won't be able to pass on price increases for example aggregates & sand and employee cost that will not be a part?

**Manish Mohnot** Employee cost, personally I believe it is not going up significantly so there is minimal impact of that but aggregate & sand definitely I don't think we will be able to pass through the kind of increase which has happened.

**Rahul Garg** The EPC work that you have booked from your own BOOT projects, are those fixed-price contracts or variable price? What sort of margins on those orders?

**Manish Mohnot** Okay, the margins are all in the range of 6% to 8% what we have discussed earlier. These are all fixed-price contracts but majority of the contracts are back-to-back to subcontract on a fixed-price basis so the hit of those projects actually on our profitability is very minimal but out to the four projects, three projects where we have subcontracted to back-to-back EPC contractors who work under the supervision of JMC and it back-to-back on a fix, we will not have any hit but there is one contract which we are doing ourselves but which we have just started in the EPC contracting there, so there would be some hit but that would come in the later part of the year.

**Rahul Garg** What is your JMC debt target for the year end and consolidated debt target for the year end?

**Manish Mohnot** JMC debt target for the year end would be more in the range of Rs 500 plus crores given the growth expected of around 40% on JMC. Consolidated debt targets at the year-end would be more in the range of Rs 1300 to Rs 1400 crores including Shubham, last year we were at around Rs 1270, I expect that not to go up beyond Rs 100 to Rs 150 crores at a consol level.

**Rahul Garg** I noticed that you have restated your other operating income in the Kalpataru standalone. Last quarterly reported it as around Rs 1.9 crores for Q1, your have reached steady rate to Rs 12.4 crores for Q1 FY12, so what drove this restatement?

**Manish Mohnot** Well I respond to it, I will ask Kamal to add on to it. With my understanding it is primarily because sale of scrap which now get qualified as other operating income because of Schedule-6 changes but Kamal would guide you further on that.

**Kamal Jain** It is that only because of the Schedule-6 the sale of the scrap, etc., is to be treated as the other operating income, earlier it was treated as part of the sale and revenue.

**Moderator** We have the next question from the line of Fatima Pachha from ICICI Prudential, please go ahead.

**Fatima Pachha** Even if I adjust the Rs 5 crore for the other OPEX, as a percentage of sales it looks significantly spiked. Is there anything other say provisions, what could have led to this big spike?

**Manish Mohnot** Other expenses, typically there would be one big thing of Schedule-6 changes where in you have a lot of classification has changed otherwise other expenses have not gone up significantly accept this Rs 5 crores. I think it is got to do more the classification issues, it is not what to do with anything else.

**Fatima Pachha** Sir, you have got Rs 9 crores of other operating income this quarter, what could this be because I thought this number….?

**Manish Mohnot** It is only sales of scrap.

**Fatima Pachha** But generally, these number used to be only Rs 1.5 crores to Rs 2 crores?

**Manish Mohnot** Because what happened in the previous year was Scheduled-6 changes, now it required us to disclose sale of scrap as other operating income and not as normal sales, till last year it used to be normal sales. So if you look at the last year numbers which has been represented that is primarily because of the sales of scrap has moved there instead of being a part of sales.

**Fatima Pachha** What is a call on the debt portion? Do you think in the first half generally you have increase in working capital to sales but even if you continue to go at 20% in the entire year, your debt levels on standalone would remain at these levels or you think it will even spike further?

**Manish Mohnot** No, I don't think but at the year end you will see debt levels going up significantly. I think, by the year-end our plan is to keep debt levels less than Rs 500 crores for Kalpataru standalone and pretty confident that we'll be able to achieve it. First two quarters given the nature of the industry and if you look at historical numbers also, debt levels always go up but in Q3 and Q4 you will definitely see that improving.

**Fatima Pachha** And 20% sales growth we are more confident this time than say may be last year?

**Manish Mohnot** Yes, 15 to 20 and don't catch me on quarterly numbers given that whatever happens externally but on an annualized basis 15% to 20% definitely.

**Moderator** We have the next question from the line of Deepak Vora from Quest Investment Advisor, please go ahead.

**Deepak Vora** I just want to come back to the JMC thing where you talk about the three different types of contracts that you have as steel, cement as pass through, that would be typically factory and building contracts?

**Manish Mohnot** Industries are mainly typical steel and cement, it is free supply from the client.

**Deepak Vora** The second when you said where you have the fixed BOT contracts which is your again back-to-back with your subcontractors? And the third one will be the variable parts, am I got the breakup correctly?

**Manish Mohnot** The second one is where you have fixed-price contract which includes the BOT as well as industrial and building as well as other contracts also but BOT is significant on it on where we have back-to-back so the impact on my numbers would not be significant because of that. So it is all 4 projects but significantly BOT today.

**Deepak Vora** If you look at your order book and that would also get reflected in your revenue is getting booked. If you have 50% coming from industrial buildings and where you don't have a price variations where client power gives you steel and cement similarly you will also have road, infra which is 40% which is also very large so what would then explain such a large difference in EBITDA margins?

**Manish Mohnot** I think, the one thing which you got it wrong is not all industrial buildings is where steel and cement as a back-to-back. Majority of the projects back-to-back are in industry and building that was what my statement was. So within industrial buildings you are closer to 50% or 40% definitely projects where you don't have back-to-back whether have WPI index or you have any of the other indexes, in today's environment you do not get it cover at all.

**Deepak Vora** So that is what would cause such a big difference in?

**Manish Mohnot** And you believe that is the permanent hit rather than a timing issue like other group companies.

**Deepak Vora** Saw the other thing I'm not sure whether I missed it or not, but you are giving some debtors figures, those debtors the you mentioned was essentially for Kalpataru, am I right or was it for JMC on a standalone basis, the debtors you said about Rs 1450 crores so what would be for JMC then?

**Manish Mohnot** JMC is in the range of Rs 412 crores.

**Deepak Vora** I just wanted to get a sense of your total debt level when I look at your JMC and Kalpataru put together on a standalone basis currently your debt looks to be in the region of Rs 100 crores on Q1 basis, is that correct?

**Manish Mohnot** You will have to add SSLL nos and and some other subsidiaries.

**Kamal Jain** Because it is not consol numbers if I add all the other subsidiaries and Shree Shubham and all of that it'll be excess of Rs 1500 crores.

**Moderator** We have the next question from the line of Ankit Gor from B&K Securities, please go ahead.

**Participant** I just wanted to know the details about the financial closures that we did on Rewa MP model?

**Manish Mohnot** Details in what sense?

**Participant** How much have we borrowed and at what rate?

**Manish Mohnot** I think the financial closure has just happened a few weeks ago our total borrowing in that is around Rs 500 crores and I think the interest rate is more in the range of 12%.

**Participant** Also I was looking at the loan funds of the JMC they have increased sequentially but if I see your interest numbers it had declined on a sequential term, may I know the reason for the same?

**Manish Mohnot** The key reasons for it is last year same quarter the interest rates in the market were much higher than what we are today they have not gone down significantly but there was a slight reduction on the totality basis both the PLR of banks as well as the interest rates so that is the key reason.

**Participant** Just again on JMC ordered if I were to look at your order back off around Rs 5600 crores 50% is your factory and buildings would you be able to split this between orders from real estate developers end users and are we basically issued in terms of cash flow collection from real estate developers?

**Manish Mohnot** Our real estate developer's order book would be very minimal in that 50% it would be less than 10% and majority of them is in southern India, we are doing real estate development projects primarily in Bangalore and some in Mumbai. Bangalore I do not think we have any constraints in terms of cash flows from majority of the real estate developers barring a few but there would be very small in terms of impact. At the Mumbai level we are working only on a few of them and none of them are today our group companies related order books it is all external.

**Participant** If I were to look at your margin on a sequential basis if I were to understand you would not have seen significantly changes in revenue mix as far as your revenue booking is concerned but on sequential basis your margins seems to have come up by 230 basis-based points and during this period I doubt if cement and steel prices have increased by at this significant amount to just if you can clarify one more time?

**Manish Mohnot** I think I am sure of what we have said and it would help if you were to analyze but I know that cement prices have gone up by closer to 40% in the last one years.

**Participant** Am not talking about one year if you were to look as sequential basis, sequentially we would have not seen this kind of a hike?

**Manish Mohnot** No we have. If you look at even the last quarter to this quarter's steel and sand price hike of closer to 50%, if you see last quarter to this quarter and that is why in cement in some parts of the country it has gone up by 30% in three months I know some of the states where it has gone up from as low as Rs.280 to 350 today.

**Participant** But if I were to look at your breakup and then you have provided for expenditure, raw material cost has not gone up substantially as a percentage of sales?

**Manish Mohnot** It has on a sequential basis.

**Participant** Yes.

**Manish Mohnot** On a sequential basis what happens is the nature of the projects in which you book suppose you have some bought out items which are there which are not there in Q1 you would not be able to see the impact of it. Q4 typically, when the clients have a cash flow visibility is where a lot of bought out of items come in. Q1 and Q2 they are much minimal than what you have seen in Q3 and Q4 so from that perspective where thee margins always get impacted, bought out typically your margins are nearly fixed because you are back-to-back contract the moment you get an order.

**Kamal Jain** But overall material cost has gone up by 2% plus.

**Moderator** We have the next question from the line of Sandeep Tulsiyan from JM Financials, please go ahead.

**Sandeep Tulsiyan** You mentioned Rs 13.5 crores is the income you booked at BOT level for SPV project?

**Manish Mohnot** What I indicated was this is the income accrued at the SPV level it has not come into our numbers yet because the consolidated numbers are not yet declared, that this is at SPV level that this income is there where we have a 51% stake.

**Sandeep Tulsiyan** What we would be the tentative PAT number over there if you can give us an idea?

**Manish Mohnot** For the year we expect that revenue to be at Rs 54 crores and our PBT should be in the range of around 8 to 10%.

**Kamal Jain** Around Rs 3 to 4 crores but after getting consolidated with us.

**Sandeep Tulsiyan** In JMC there was a tax write-back I'm not sure whether you have explained it earlier because I logged in late on to the call. There is a tax write-back of about Rs.8.6 million if you could just explain that?

**Kamal Jain** Tax provision there has been some exemption in case of some infra projects and there has been some deferred tax provision on certain projects where there is a loss so overall the tax is in a negative but overall in the year end it will be around 20 % of the PBT.

**Moderator** We have the next question from the line of Sunil Jain from Nirmal Bang Securities, please go ahead.

**Sunil Jain** One question related to JMC and we have said that in the current year we are looking at EBITDA margin of around 6 to 7% is it possible to share how is the margin in current order book of around Rs 5500 crores?

**Manish Mohnot** If I look at the zero-based margins to price based on all the rise which has increased in the market I think we are at similar levels although the factory and the buildings space would have higher margin which are more in the range of 9 to 10% and the other would be in the range of 5 to 6% in totality it would be all in the range of 6 to 7%.

**Sunil Jain** So you mean to say in the coming year also the improvement in margins is looking difficult?

**Manish Mohnot** Yes I think in the current year next year improvement from there, 25 to 30 basis points here and there but not significantly.

**Moderator** We have the next follow up follow-up question from the line of questioning from the line of Kirti Dalvi from Enam Asset management, please go ahead.

**Kirti Dalvi** Just one book keeping questions, in our last consolidated financials FY12 in interest costs there were some Rs 9 odd crore figure which was extended variation, would that be classified as MTM again or would that be actual payout you have done for your loans?

**Manish Mohnot** I believe it would be classified as MTM at any given point of time but I would request Kamal to answer that but I think it is MTM.

**Kamal Jain** It is always on MTM basis only.

**Kirti Dalvi** So versus last year it was a Rs 5 crores?

**Kamal Jain** Till the liability is crystallized it will be on MTM basis.

**Kirti Dalvi** So, this Rs 9 crores was an M-to-M loss and verses FY11 you had Rs 5 crores was the M-to-M gain

**Manish Mohnot** Perfect.

**Moderator** We have the next question from the line of Ankit Gor from SBI Capital, please go ahead.

**Ankit Gor** My question is regarding JMC and status of our BOOT projects, if you can give some highlights and the status at this current point of time?

**Manish Mohnot** On our road BOOT projects we have achieved financial closure for all the 4 projects, 2 of them have already gone into construction, the 3rd one we are waiting for the final environment clearance that should be getting into construction in the next month or so. The first one Rohtak-Bawal we have physically completed over 50% of the work and expected COD is Q1 of FY14. Agra-Aligarh the construction has started the expected COD is Q2 of FY14. Nagpur-Wainganga we have started the construction and expected COD is by Q2 of FY15. Rewa-MP we have just done the financial closure so in this based on this once we get the approval it is around 18 months it should be Q4 of FY14.

**Ankit Gor** So which one is trapped in the environment clearance project?

**Manish Mohnot** I think all of them are cleared there is a small approval pending on is Agra-Aligarh. There is a small approval which is expected in few weeks it is all got here it is now only in documentation.

**Moderator** We have the next follow-up question is from the line of Chinmay Gandhre from KR Choksey, please go ahead.

**Chinmay Gandhre** How much would constitute order backlog of our own BOOT projects in JMC of Rs 5500 crores?

**Manish Mohnot** Out of the 5500 crores our own road BOT projects order backlog would be in the range of Rs 1200 to Rs 1300 crores.

**Chinmay Gandhre** The Rs 6000 crores order back log at Kalpataru Power Transmission level how much would have price variation and how much would it be fixed?

**Manish Mohnot** Around 60-65% of our orders we do not have the risk of price variation. Around 30 to 35% orders we would have some risk of price variation.

**Moderator** The next question is from the line of Anil Kini from Envision Capital, please go ahead.

**Anil Kini** My question is for the Kalpataru Power, could you please give some kind of visibility on CIS and MENA 9 months visibility how is the domestic market looking at present?

**Manish Mohnot** I think on the domestic market also while we're not seeing many tenders coming up in the last month or so but there is a huge tender being planned by Power Grid for the balanced part of the year and for the next 2-3 years, so on the tender front I think there is a lot of tenders which you see from Power Grid and SEBs in the next few quarters. We have visibility already for the next two years as far as the domestic operations are concerned and with these new tenders coming of things look better then although competition continues to be one driving factor in terms of what order book you can get but that is going to be a challenge that is the nature of the industry we'll have to live with that.

**Anil Kini** Do you see the competitive intensity increasing going forward or do you think it will mellow down?

**Manish Mohnot** I think it is reduced as compared to what it was previously. There is still a lot of competition but I've seen people bidding at very low levels is not visible a lot at least on the transmission domestic front but the competition continues to be as it is but that idiotic bidding or the biding at below cost levels has stopped to a great extent.

**Anil Kini** And this Rs 3000 crores that you have already bid out is this entirely for international or there is some domestic?

**Manish Mohnot** Partly for international and domestic front are then closer to again Rs 1500 to Rs 2000 crores worth of tenders we have bid for which prices are still to be more than Rs 2000 crores.

**Moderator** That was the last questions from the participants. I would like to hand over the floor back to Ms. Bhoomika Nair for closing comments. Over to you ma'am.

**Bhoomika Nair** Thank you everyone for being on the call and especially the management for taking time out, thank you very much.

**Manish Mohnot** Thank you very much.

**Moderator** On behalf of IDFC Securities Ltd that encloses conference calls. Thank you for joining us you may now disconnect your lines. Thank you.