"Kalpataru Power & JMC Projects Q4 FY 2016 Earnings Conference Call"

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ANALYST: **MS. BHOOMIKA NAIR – IDFC SECURITIES LIMITED**

MANAGEMENT: **MR. MANISH MOHNOT – MANAGING DIRECTOR – KALPATARU POWER TRANSMISSION LIMITED**
MR. KAMAL JAIN – DIRECTOR FINANCE & CFO - KALPATARU POWER TRANSMISSION LIMITED
MR. MANOJ TULSIAN – DIRECTOR (FINANCE) & CFO – JMC PROJECTS

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2016 Earnings Conference Call for Kalpataru Power Limited, hosted by IDFC Securities Limited. As a reminder, all participant lines will be in listen only mode and there will be an opportunity to ask question after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Ms. Nair!

Bhoomika Nair: Good morning everyone. Welcome to the Q4 FY2016 earnings call of Kalpataru Power and JMC Projects. We have the management today being represented with Mr. Manish Mohnot, Managing Director, Mr. Kamal Jain, Director Finance and the CFO, as also Mr. Manoj Tulsian, Director (Finance) and CFO of JMC Projects. I now handover the call to Mr. Manish Mohnot for his initial remarks, post which we will open up the floor for Q&A. Over to you Sir!

Manish Mohnot: Thank you Bhoomika. Good morning friends. We have declared the Q4 and financial year results both KPTL and JMC and the copy of results, press release and presentations have been sent to all of you, and it is also on the website of the company.

Before proceeding with the Q&A session, I would like to take you through the key highlights of the results and the recent developments. In the last quarter KPTL has achieved topline growth of 29%, operating margins in the range of 10.5% and PAT growth of 18% on a YOY basis.

In the full year topline has slightly declined, operating margins have improved by almost 100 basis point and PAT has grown by 20%. As discussed in earlier quarter's call also the reasons for topline reductions in the last year is due to delays in order inflows during last year. As we have achieved significant progress in getting new orders in this year topline growth in the next few years is very clearly visible now.

The operating margins in the last year increased due to better realization in TND business and turnaround of the infrastructure business namely pipeline and railways. From future perspective we expect both the trends could continue for the next few years due to our focus on cost competitiveness and project execution.

During the last year Kalpataru has also achieved significant success in reducing the debt by more than 370 Crores even after investment of 100 Crores in JMC right issues. Our standalone debt at the year-end is less than 600 Crores as of March 31, 2016. This is the outcome of advances from clients and new projects, realization of retention money in a few large sized projects and focus on reduction at recovery site.

From order book perspective KPTL had order inflow in the range of 7500 Crores in the last year and in this year till date we have secured inflows of over 2000 Crores. In addition to that we have L1 position of over 2000 Crores which we believe should all materialize in the next two months. Including all orders we have visibility in excess of 10000 Crores as of now, which gives us good visibility of revenue for the next few years.

For the next year we are expecting topline growth of minimum 25%with operating margins in the range of 10.5%. As most of the current order book consists of fresh orders achieved very recently there could be some variations in few quarters in just providing guidance numbers, but from full year perspective we are very confident to achieve the topline growth of minimum 25%.

In the last year JMC has achieved topline growth of 3% with operating margins improvement of 160-basis points to reach 8.4% and achieve PAT growth of 37%. For JMC the order inflow last year was exceeding 3000 Crores. The current order book of JMC is a healthy mix of government and private sector. As a part of our international expansion plans we have also established good presence of JMC in Ethiopia and they are likely to get an order in Sri Lanka also.

Besides this JMC is trying to focus on a few more countries in Africa and we believe we will have good success in the current year. In the next year we are expecting a topline growth of 10% to 12% with operating margins in the range of 8.5% to 9% and definitely some reduction in debt levels. As per the last right issue objective, debt has been reduced to the extent funds have been raised.

On our road BOT project portfolio recently we have secured final COD of Rewa MP project and now all our four-road BOT projects are operating on full toll and a full-length basis. On our other investments, one is Thane IT Park; we have sold another 10% of the area for consideration in excess of 20 Crores. In total we have sold 40% of the area with consideration in the range of 85 Crores. The balance 60% area is leased out with the rate in the range of 50 square feet per month and that would realise rental income in the range of 12 Crores per annum.

Our plan is to monetize the balance 60% also and we believe that in the next year we should be achieving that. Recently we have also started the sale process of our residential cum commercial complex in Indore. We have seen some good traction on the project. The saleable area of the project is around 4.5 lakhs square feet.

In Shubham overall business has impacted due to lower utilisation of our warehouses across the country, especially much lower utilisation in MP and Maharasthra due to drought conditions, which happened in the last few years. We are also rebuilding our management team at Shubham and revisiting the business on the trading and arbitrage unit. The boards of Shubham and Kalpataru have approved investments of Rs.70 Crores through rights issue in SSL and it should be invested in the first quarter of current year.

With this update and request I would like to open the floor for Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Congratulations for a great set of numbers. Just wanted to get an understanding as to how the order inflow environment is going forward from Powergrid, SEBs and also from the upcoming IPCTC orders? What is the ballpark size that you are looking at?

Manish Mohnot: Thank you Ravi for the complimentary statement. I think from the order book perspective we see Powergrid continuing with orders in the range of 20000 to 22000 Crores which they have done in the previous year also we are seeing some good traction from the Powergrid in the last two three months and we believe that will continue for the period of time. Additionally SEBs at least six or seven SEBs the big ones have started coming out with a lot of tenders and we believe that the market for SEBs should also be in the 10000 to 12000 Crores going into the next year. On the international front, we are seeing a lot more traction coming from the African countries much, much higher than what it was in the past, so from our perspective African countries and CIS countries could contribute to a large chunk of order book going forward.

Ravi Swaminathan: In the SEBs which are the SEBs that are coming up with orders?

Manish Mohnot: We see a lot of traction coming from Karnataka, Tamil Nadu, West Bengal, UP, Bihar, MP so you see a lot of traction coming from while there is traction from everyone, but significant traction coming from these SEBs.

Ravi Swaminathan: How about the ticket size of these orders which are coming up?

Manish Mohnot: Typically in the range of 250 to 300 Crores per project and I think depending from what kV range to what length of line but typically 250 to 300 Crores each.

Ravi Swaminathan: Got it. Regarding this IPTC order, which is coming up what is the opportunities in terms of TL scope for players like us?

Manish Mohnot: They have 15 tenders in all which have been bid. We are just waiting for Powergrid to open that tenders so we can see how much is the potential for each one of us. The total order size could be in the range of 4000 Crores for transmission itself on this site.

Ravi Swaminathan: In terms of Subham Logistics we have seen when you had mentioned it is because of the drought conditions etc., so you see an improvement in realization going forward if things improve going forward? And what are the efforts we are taking to look for revenue growth there?

Manish Mohnot: From a realization perspective, I am not sure we will see enough traction or improvement in the current year, unless we see good monsoons and we are all keeping our fingers crossed, but from an internal perspective we are focused a lot more in cost reduction, on making sure that for whatever warehouses we have the yield improves and using the lease warehouses we have taken. From internal perspective the complete focus is on cost effectiveness and making sure that we can get the maximum yield of all our warehouses.

Ravi Swaminathan: Thank you.

Moderator: Thank you. The next question is from the line of Arafat Saiyed from Quant Capital. Please go ahead.

Arafat Saiyed: Congrats on a great set of numbers. Sir, my first question pertains to the EBITDA margin. You said that you are looking for 25% sales growth in the next year so any numbers on margin front?

Manish Mohnot: We should be a minimum of 10.5% EBITDA. When I say minimum obviously my target should be higher than that but we should be doing a minimum of 10.5% EBITDA going to the next year and we have already targeted our PBT margins exceeding 7% going into the next year.

Arafat Saiyed: Sir secondly you have reduced your debt very significantly in this year, so you are looking this again in the next couple of years as well.

Manish Mohnot: Our belief is that this business the biggest area which we need to focus always the working capital and that is where we continuously focus on, so we have reached those numbers of 600 Crores with the focus of the entire team. We will continue to focus on reduced debt levels, whether it would be at same levels or would it be higher than this it is all dependent on a few projects and what happens to the recovery cycle but we expect it to be in the range of 700 to 750 Crores by the year end. It would definitely go up from here given the 25% growth, which we are expecting.

Arafat Saiyed: Sir, last question is on Shree Shubham Logistics. This year the numbers are very bad in terms of if you look at the core EBITDA is about 75% on a 20% declining sales, so basically outlook you can give from here from where it can head to for the next couple of years and when you are trying to again do IPO for this company?

Manish Mohnot: From a topline perspective, Shubham you might see much reduced numbers going it as next year because we are revisiting our entire business model on the trading and arbitrage side we are now completely focused on warehousing and related services. As far as bottomline is concerned, we believe that you could even see this year being into negative, we should not expect Shree Shubham to break even in the current year although the losses will reduce significantly but it would continue to be in losses for the current year also. From our projects we seen breakeven in profits coming in the next year, which is 2017-2018, and a good improvement coming in 2018-2019. When I say all of this, this could be different if we have a very good monsoon and very good crops specifically MP, Maharasthra and Gujarat; because we have seen in the past two to three years with a good crop the realization is completely different. So keeping our fingers crossed, but as of now we believe that that this year would also be negative as far as Shubham is concerned.

Arafat Saiyed: That is it from my side. Thanks.

Moderator: We have our next question from the line of Debashish Mazumdar from Edelweiss. Please go ahead.

Debashish Mazumdar: Good morning. I have a few questions around JMC Project. What is the total order book we are ending this year for JMC?

Manoj Tulsian: This year we are ending at 6100-odd Crores.

Debashish Mazumdar: How much of that is from building?

Manoj Tulsian: Almost 50%.

Debashish Mazumdar: Because in December end we had 85% from buildings and factories? That is from inflow, sorry my mistake. Just to get some sense with 6100 Crores of order books which is pretty healthy why are we giving a growth guidance of 10% to 12%. Are we trying to be conservative or this is what the realistic number would be?

Manoj Tulsian: I think this is the realistic number. The reason is that if you see the last two three years we have been in a consolidation phase. We have not really grown on topline and since if you see 50% of the order book is also from buildings and those are residential buildings also so any type of slow down or payment delays may actually reduce our execution. But this is most realistic, yes we can be better than this for sure, but I think 10% for sure is achievable.

Debashish Mazumdar: But are we seeing any slow down in our existing project or delay in payments or something like that?

Manoj Tulsian: Not quite because if you really see most of our orders are concentrated in the southern part of the country basically we are not seeing any problem. We already withdrew from the other states like the eastern part or the northern part a couple of years back.

Debashish Mazumdar: As far as debt is concerned around 500 Crores of debt we are holding in the JMC Projects. What is our debt level target for FY2017?

Manoj Tulsian: Actually your first figure was right it was around 650, we are around 670 Crores and this year for sure the debt will not go up. We have investments to go for in the BOT projects, other investments, but we will be able to manage within the same debt level.

Debashish Mazumdar: What is the BOT investment that is planned?

Manoj Tulsian: This year at present it looks like it should be close to around 60 to 65 Crores.

Debashish Mazumdar: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Good morning Sir. Again a few questions pertaining to JMC, Sir what is the L1 position at JMC as of date as we speak?

Manoj Tulsian: We have around 750-odd Crores.

Nirav Shah: You mentioned in the opening remarks that you are expecting some orders in Sri Lanka so can you just briefly elaborate which segment it is and again if it is road, we are now focusing less on roads in India but more on roads outside India so what is the strategy for this international foray in JMC. Just if you can please spend a few minutes on that please?

Manoj Tulsian: So, out of 750 we have L1 position in Sri Lanka, which is the water pipeline project, which is around 125 Crores and other than that the international strategy on the road side we have got now two projects in Ethiopia both on roads. We took the first project around a couple of years back and we wanted to see because that was our first ever road project outside India and we had done reasonably well and because of that we again went for bidding and we got one more project now in Ethiopia which is another 450-odd Crores, which we have already declared. So we are finding this territory to be good as far as road business is concerned in the international arena. So we will continue to delve upon the same strategy of building road order book in the international arena. We are looking at a few more countries to expand, Tanzania and Mozambique other than Ethiopia in the next couple of years and even may be Zambia.

Nirav Shah: Sir, the next question is again on the BOT front now that Rewa full COD has been achieved, if I can ask what is the current daily toll collection that we are doing because prior to that we were doing around 51 or 52 lakhs a day?

Manish Mohnot: When we said last time, 51 or 52 lakhs that was including the estimated toll revenue from the second toll plaza of Rewa. So once we have done that we are at that level of between 50 and 51 today per day collection. We are estimating a growth of around 6% this year.

Nirav Shah: That is a traffic growth or revenue growth?

Manish Mohnot: Revenue growth.

Nirav Shah: Any toll hikes during any revision, which was due on April 1?

Manish Mohnot: There was revision, which was due, but since in WPI was negative effectively we did not get any increase in the tariff rate. It was like 1% or less than 1% all the projects taken together.

Nirav Shah: Blended, so kind of say we are expecting 5% traffic growth 1% to 1.5% toll growth so blended 6%.

Manish Mohnot: That is right.

Nirav Shah: Sir, if look it up performance for BOT and I reduce the consolidated minus standalone we did an EBITDA of around 37 Crores in FY2015, which was 57 Crores in FY2016, margins have dropped extremely sharply from 55% to 36% so any reasons you would attribute to phase II?

Manish Mohnot: The reason is that till all the projects get capitalized, it does not hit the revenue side, once we got fully commence it got capitalized and now the interest cost of the balance portion is hitting the revenue account during the year.

Nirav Shah: No, I am talking about the EBIT, and not interest part, interest because of capitalization that has increased?

Manish Mohnot: We have improved from around 40%; we are at 40% in 2016.

Nirav Shah: We were 55% in FY2015.

Manish Mohnot: That is because of capitalization only.

Nirav Shah: What was investment in our BOT equity plus the advances everything in FY2016 because the cash flows was 74 Crores?

Manish Mohnot: Our total investment in 2015-2016 was 88 Crores.

Nirav Shah: 88 Crores and I believe if this current run rate goes our breakeven is 60 lakh upwards so we will need to put in some 20 to 30 Crores in FY2018 as well.

Manish Mohnot: Yes.

Nirav Shah: What is the strategy over this for the portfolio, you plan to sell it as a bouquet once it stabilizes, but then according to your internal assessment when can that be come up Sir?

Manish Mohnot: That is a million dollar question. We can only say that our initial target was to complete all the projects on time and then start managing the business as best as we can. We are reasonably happy about the way we are managing all the four projects and now we have to wait for some opportunities, so we will take some call at the right time.

Nirav Shah: Sir just last question on JMC front if I can ask, as of your Q3 end the order book was around 6200, which is again similar in this quarter as well and we received inflows of Rs.920 Crores against our execution of Rs.720 odd Crores, so incrementally there should be an accretion of around Rs.200 Crores in the order book, so any cancellation or change of scope which has reduced the value of our order book by Rs.200 Crores effectively?

Manish Mohnot: There are two things in this, one what happens is most of these orders when we get almost are estimated number and by the time we close the order sometimes there is some amount of sourcing which happens in a particular work by a client, so the year end we have adjusted all those numbers and we have come out with a net number.

Nirav Shah: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Good morning. Thanks for taking my questions. The first one is, I will just pull on a thread that we highlighted earlier in terms of state ordering in transmission, just wanted to understand of these six states expansion that mentioned in your conversation what is the main driver behind the increased ordering in these states, why now, why are these states investing now as and what has changed?

Manish Mohnot: It is a combination of two things. One as the strengthening of the infrastructure itself, a lot of states periodically you see that it has been a history over the last 10, 15 years, every three, four year you will see states focus on strengthening of the system, so lot of them are moving from 400 to 765kV and some moving from 220 to 400 and also moving from let us say AIS substation to GIS substation that is one, second a lot more is happening, also given the thrust on renewable energy where the key, where the need continuously new lines, so that they could connect to the grid, so it is a combination of both strengthening and new generation coming on the renewable side.

Utsav Mehta: My second question was on the international road foray, I just wanted to understand given the fact that in India there is also at least there is a sharp increase in ordering, what is the rationale of facing the road abroad when you can very well do it in India?

Manoj Tulsian: There are two things one in the past we have felt that in India when we are working on the road projects the margins are to some extent not very certain, so we start with certain margin in assumptions, but it does not works out that way because of the issues the country continues to face. Internationally I think again based on the experience of Kalpataru power one thing is for sure that when we bid a project with some discipline in a particular level of margins we are very close to that margin, so that gives us confidence plus we have moved away all our machineries from the country, so taking any project in India means further investment. Number three there are lot of smaller players who has also come in to the road business where the difference between their pricing and our pricing is significant, very difficult to answer this, that is where we also are not so competitive when we are bidding in the Indian road projects.

Utsav Mehta: Just to summarize you are saying essentially the operating environment has still not improved dramatically and competition is pretty high?

Manoj Tulsian: Yes.

Utsav Mehta: Understood and just one last question if I may on AP and Telangana we have been hearing a lot of intent from both states in terms of investments into building new infrastructures, new cities, irrigations projects, so any sense of what you all have a specific strategy to enter this market in a large way or any sort of dynamic set of doing on over there if you could fed some light?

Manoj Tulsian: We are working on the same. There has been lot of traction which has come in the water projects, in Telangana in around in the last six months, but we have been looking at the pricing, the pricing again was very, very competitive and those were large scale project, so we are looking at those but we will use all our rational to ensure that our topline and bottomline both are protected.

Utsav Mehta: But in terms of working capital and an advances and all these contracts are just about right or we would think that in terms of working as well there could high-pressure working capital for them?

Manoj Tulsian: Telangana if you really see they were all with a lot of pressure on the working capital because those were significantly large projects, all in the range of Rs.700 to even Rs.1200 Crores with no mobilization advance on the project, so which for sure can bring a lot of the stress on the working capital if not managed.

Utsav Mehta: But given the size of the orders competition would have been lower right?

Manoj Tulsian: No the competition was, it was very competitive.

Utsav Mehta: Thank you so much for answering my questions and have a good day.

Moderator: Thank you. The next question is from the line of Salil Utagi from Systematix. Please go ahead.

Salil Utagi: Good morning Sir. I believe traction in the infra business has been improving since last six months, so how do you see going forward and what kind of execution we can see in these segments?

Manish Mohnot: Infra for Kalpataru Power right?

Salil Utagi: Kalpataru Power.

Manish Mohnot: I agree with you, you are seeing a lot more traction on both pipeline and railways, so on railways we are seeing tenders coming up which is more three times of what we saw in the previous year and current year inflow target on railways order book in the excess of Rs.750 Crores if not Rs.1000 Crores, so we are seeing a good traction and that would mean good focus on revenue and also improvement in margins, even on the pipeline we are seeing some traction coming, but not as much as on railways, railways is much, much better what was happening in pipelines today.

Salil Utagi: What could the contribution of railways right now?

Manish Mohnot: On revenue?

Salil Utagi: In current order backlog?

Manish Mohnot: In order backlog railways is around Rs.600 Crores.

Salil Utagi: Rs.600 Crores and I think it has more than tripled or doubled at least in last one year?

Manish Mohnot: Yes and I think it should double again from here a minimum going forward, so railways and pipeline put together as Rs.1200 Crores and we expect them to have orders of around Rs.1500 Crores in the current year, both of them put together.

Salil Utagi: Order size would be around Rs.150 Crores, Rs.200 Crores in railway?

Manish Mohnot: Yes, it is range of Rs.100 to Rs.350 Crores and also we are looking at now opportunities of railways on the international arena so we are taking them along on in Africa on international opportunities, so hopefully in the current year you could see some railways win in the international segment also.

Salil Utagi: Sir would you be able to maintain margins of upwards of 10% in railway?

Manish Mohnot: That is our aim, but if you ask me realistically the operating margins in the infrastructure business for the current year should be in the range of 8% to 8.5%.

Salil Utagi: Is it because water business is low margin business or overall pressure is this?

Manish Mohnot: It is a combination of two or three things, one is competitive pressure, second what happens in this business is the value addition is minimal, lot of bought out and civil unlike transmission business where you have a lot of design playing a role, manufacturing all of that so given that 8% to 9% should be reasonable margin on this sector.

Salil Utagi: Sir PGCIL mentioned that now they are looking to enter into EPC in African countries so how do you see that as a competition going forward?

Manish Mohnot: From our perspective when we see PGCIL is more about consulting than EPC they have been doing a lot of consulting assignments in that part of the world, but if they plan to come in there we will happy to have them as a competitor, but to me it looks like a very difficult statement to really get into EPC business.

Salil Utagi: They are saying it is two, three year forward that they are looking to enter African markets?

Manish Mohnot: Healthy competition is always welcome.

Moderator: Thank you. Our next question is from the line of Amar Singhania from Asian Market Securities. Please go ahead.

Amar Singhania: Congratulation for good set of numbers, just couple of questions both on KPTL and JMC side, first on KPTL is there any one-off receivable of advances or retention money which has brought the working capital down and do we see going forward maintaining the same level or it will come back to 165 to 167 days as mentioned?

Manish Mohnot: Just to answer your question, there is nothing called as a one-off advance or one-off retention. When the projects gets over you get the retention back in advance you get once you win a project, yes there are advances which have come because order book has gone up and order book at the previous year was only at the range of 5500 and now we are in the range of 10000, so there are advances which have come up and there some retentions, but whenever project gets closed you get the retention back, so there is nothing called one-off there. As far debt levels are concerned as I said earlier we do not expect it to be in the same range going forward, so given the 25% growth which we are expecting minimum, we expect debt levels to be in the range of Rs.750 Crores, Rs.800 Crores by the year end on a standalone basis.

Amar Singhania: Secondly Sir on the JMC side, could you give some more color about how these four road projects are panning in terms of toll collection and how much shortfall is it compared to our estimate, what kind of break even we are seeing given the current scenario and earlier we were projecting roughly around 25-30 Crores of cash losses on an annual basis, but this year we have done around 60 Crores plus of losses on that part, how do we see that picture panning out and one more thing on that part is, we were roughly around 30 Crores of investment short in road BOT till last quarter, now it is 60-65 Crores, does that include the losses also?

Manoj Tulsian: Last year when we had put the projections in terms of infusion we were talking about a number close to around 110 odd Crores which was assuming some amount on account of equity funding, capex funding, loss funding and repayment, these were the four elements and if you see we have infused around 88, so there is some spillover of close to around 25 odd Crores and for this year we were maintaining that our infusion should be close to around 35 odd Crores, so if you add up, it is 25 plus 35 60, so even now we are saying it is around 65 odd Crores, we are almost on the number in terms of our assumptions but one thing is for sure in road projects because of the variability it all depends on what type of growth we are able to see in the traffic in the coming years, if the traffic goes by 10-15% the infusion can be very minimal, if there is no growth then the infusion can even be higher than this.

Amar Singhania: In terms of toll collections and break-even and our estimates around that part?

Manoj Tulsian: Right now we are in the range of around 50 lakhs and if you have to break even at the P&L level, it has to be close to around 70 lakhs, but if you have to break even at around cash level, then we should be close to around 57-58 lakhs.

Amar Singhania: When do we see that coming in, this year or next year?

Manoj Tulsian: This year looks slightly difficult though it is again a statement which may not be valid after six months, but the way we have seen growth in the last two, three years, we are slightly conservative, as I said if you are able to see 12-13% growth during the year yes we can, that looks most unlikely, so let us keep the next year as the cash break even target.

Amar Singhania: Sir we have a large exposure on the JMC standalone towards the real estate side, though we have not seen anything cracking on the southern side compared to other part of the country, but still the real estate on a pan-India basis looks very vulnerable, what are the steps we are taking so that we should not fall in to the trap on that part, or we see any order book deterioration going forward, how are we preparing to face that kind of situation if at all it may come in the near future?

Manoj Tulsian: Two things, first I think if you see our order book in Bangalore, it is from the best of the developers including Prestige, Puravankara and Embassy who are very strong players but having said that we ourselves have maintained in the last few calls that we are keeping a very close watch because we also feel that there is some amount of potential risk in case the markets in Bangalore close down, some of these developers are so strong that we still feel that we will sail through some of our existing projects without any trouble and also our focus is to improve our order book in other businesses, we are looking at infrastructure aggressively, that should form a sizable chunk in our order book going forward and even on the government side, there are lot of opportunities which are there in terms of civil construction activity on the government side including lot of hospitals and other civil construction structures of government houses, we are slightly more focused to improve our order book on the non-building site.

Moderator: The next question is from the line of Sandeep Baid from Quest Investment, please go ahead.

Sandeep Baid: Just wanted to ask about Shubham, I understand you have about 150 warehouses out of which one third is on lease which are short term leases ranging anyway between six months to 30 months or so, wanted to know what is the strategy there, are we going to let the lease lapse once the term is over, you mentioned that you are looking at reducing the leased warehouses in this year. What is the strategy, how much will we end up with by end of FY 2017 on the warehouses?

Manish Mohnot: Given the reduced visibility in terms of storage of commodities and food grains we have reduced our leased warehouses significantly, but today out of the numbers which we had one third today is 80% of them, we have given notices that we are vacating it. There are also few warehouses in Rajasthan; I think we would be closer to nil as far as leased warehouses are concerned in other three states by the end of June.

Sandeep Baid: How much would be the saving in terms of leased rental because of this?

Manish Mohnot: Eventually it is both. It is revenue reduction as well as leased rental. Eventually it is not that we are going to make huge margins because of this. It is only that we are at least making sure that we are not utilizing the leased warehouses fully, we are getting out of it and to that extent there could be some changes in cost, but otherwise there is not going to be significant sales on totality basis.

Sandeep Baid: Okay, now you will be left with owned warehouses or the ones, which are on the PPP basis with Rajasthan?

Manish Mohnot: Some leased warehouses more than Rajasthan and not in any other states.

Sandeep Baid: On Indore you mentioned that you have launched a project and the response has been good, if you can give some more color how many units have you put for sale, how much have you sold, what is the cash inflow expected in this year?

Manish Mohnot: I do not think we still have got all those details in the sense that we have just launched it and it is all in discussion stage, so hopefully by the Q1, we should be able to give you a lot more realistic picture on that.

Moderator: The next question is from the line of Kunal Sheth from Prabhudas Lilladher, please go ahead.

Kunal Sheth: Sir, wanted to know we mentioned that Africa could be good part of our portfolio in coming years, could you give us some sense of how does the working capital behave in Africa vis-a-vis domestic market?

Manish Mohnot: Typically internationally our working capital cycle is much lower than the domestic business given that there is always an advance and there is majority payment which is linked to LC, so while our working capital side in the domestic business could be anywhere in the range of 150-180 days but on the international business it would be more in the range of 90-120 days and sometimes 140 for some of the projects.

Kunal Sheth: So basically more international will not deteriorate our working capital going ahead?

Manish Mohnot: No, it does not but typically sometimes you have an exception like a few years ago we had a project in Congo which had a 20% retention which has gotten over and the retention has come back. This was a question someone earlier also asked, so it depends but typically international working capital cycle is better than the domestic one.

Kunal Sheth: Sir just a quick clarification, you mentioned that this quarter we have got 1300 Crores of order inflow, have we included L1 in our order book as well because in nine months we have got about 4800 Crores worth of order inflow and this quarter it is about 1350, so when we say for FY 2016 we have got 7500 worth of order inflow does that include L1?

Manish Mohnot: No. I do not think so. I think you need to recheck your numbers, 7500 Crores is actual orders received in the previous year.

Kunal Sheth: Because I am referring to last quarter presentation which is saying order inflow in nine months for KPTL is 4880 and if I add this quarter's number which you have reported which is 1350 for KPTL it comes to about 6230 Crores of inflow for the full year.

Manish Mohnot: We will have to just recheck these numbers, I am sure that the 7500 Crores number I will just recheck what is given in the previous quarter but order book as of March 31, 2016 was in the range of 8500 Crores and after that we have declared 2000 Crores, we are sure of these numbers, maybe arithmetically, but 7500 previous year we are very confident about what we reported there. Just check the reporting for December. I will ask Gautam to check that.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital, please go ahead.

Deepak Poddar: Sir thank you for the opportunity. My question pertains to JMC Side, as you mentioned our debt as a standalone JMC side is 550 Crores as of year-end?

Manoj Tulsian: 650 Crores.

Deepak Poddar: How much of the proceeds from the right issue have been paid?

Manoj Tulsian: The entire money has been used actually for repayment, during the year we almost reached the level of 800 Crores.

Deepak Poddar: So basically if I go back to previous calls, we have been discussing that without this rights issue our peak debt would be close to about 600 Crores at the JMC standalone level, where is the disconnect of this 200 additional Crores?

Manoj Tulsian: No I think that without this rights issue we were saying that our debt level will go up by around 50 to 70 Crores during the year. This I think was what we had said at the beginning of last year but then our investment in BOT went up and that is where we felt that there is a necessity of some amount of equity infusion also, capex also we were looking at 50 odd Crores whereas last year we had done around 85 Crores on capex side also.

Deepak Poddar: So basically both on capex and BOT side the additional investment led to higher debt at the standalone level?

Manoj Tulsian: Yes.

Deepak Poddar: So basically this 628 Crores quarterly run rate of 24 Crores does it kind of includes the entire impact of this repayment or how is the scenario there?

Manoj Tulsian: Which is this 24 Crores?

Deepak Poddar: The quarterly interest outgo that we have on this quarter. So is this the run rate that we are going forward we are going to maintain?

Manoj Tulsian: We should be slightly better than this because of the repayment.

Deepak Poddar: Okay, I understood on that front, now on the asset monetization what is the plan like, I think we are planning for cash basis and only by FY 2018, do we have a strategy to sell before that or only after we do the breakeven on some of the projects, any thoughts on that would be helpful.

Manoj Tulsian: At the right opportunity we would look at it.

Manish Mohnot: From our perspective we have already appointed bankers who help with this process and given that a number of road assets in the market, today it is clearly a buyer market, so our focus right now is to make sure that we bring in maximum efficiency on the projects on toll collection and make sure the leakages are the lowest and while this process is a continuous process and it is already now being lead by investment banker, it is about whenever we get opportunity we will make sure that we exit whatever opportunity we have.

Deepak Poddar: My final query is on your EBITDA margin, we did about close to 8.4% close to EBITDA margin in this year and we are targeting 8.5 to 9%?

Manoj Tulsian: Yes.

Deepak Poddar: So basically earlier we have been mentioning that about 50 basis points higher in FY 2017 is what we are maintaining, so do we still stick to that 50 basis points higher or we should look this band as a new kind of guidance?

Manoj Tulsian: We are already looking at maximum of 50 basis points higher this year, so it should be in the range of 8.5 to 9% and last year we have grown our margin significantly, at the beginning of the year we said at best possibly we were looking at 100 basis points, the EBITDA grew by 130 basis points. This year again of course we are internally targeting it to improve by another 50 basis points but we are saying it will be anywhere in the range of 8.5 to 9.

Deepak Poddar: One final thing, you mentioned 70 lakhs per day on the BOT side for break-even at the PAT level, I think if you are looking may be FY 20 is what we are looking for the break-even at the PAT level given the kind of growth?

Manoj Tulsian: You might be right given the type of growth but you know if the growth is good in the next two years it can be slightly earlier also.

Moderator: The next question is from the line of Sanjeev Panda from Sharekhan, please go ahead.

Sanjeev Panda: Sir, the first thing comes on the infra business of KPTL, this time our margin dipped, is there any aberration, can you please throw some light on that?

Manish Mohnot: I think the fourth quarter margin dip was also because of some provisions which we have made for the few doubtful recoveries where although we are chasing with clients but there are some provisions which we have made on the infra business just following a conservative approach, so on a realistic basis, we believe that business will give up 8 to 9% operating margins going forward, it is only that some provisions relating to AS 7 related to some recoverable which is what we have done in Q4, otherwise I think the margins are on track as far as analyzed numbers are concerned.

Sanjeev Panda: Sir how much the provisions would be roughly?

Manish Mohnot: For the infra business it was more in the range of 20 odd Crores.

Sanjeev Panda: The loan reduction in the standalone business, we can expect, as you already mentioned in one of the answer to be around 750-800 Crores and what about the effective rate, has it come down and what has been the effective rate at this point of time?

Manish Mohnot: We have seen interest rates coming down in the previous quarter but not as much as what we have heard about in the market, we have seen it coming down and we expect it to come down further but as far as our calculation is concerned we still look at effective interest rate in the range of 10% going forward.

Moderator: We have the next question from the line of Subramaniam Yadav from Subhkam Ventures, please go ahead.

Subramaniam Y.: Sir my question pertains to JMC Project. What is the order inflow target we are expecting this year?

Manoj Tulsian: This year we are targeting close to around 4000 Crores.

Subramaniam Y.: Sir, just a clarification on the investment loss funding in the BOT project, this year how much it would be around 40-45 right?

Manoj Tulsian: The total investment would be close to around 65 odd Crores out of which loss funding should be around 20 odd Crores and remaining is towards repayment and some of the obligations of the earlier year on capex.

Subramaniam Y.: What about capex in the standalone business?

Manoj Tulsian: We are again looking at anything around 60-65 odd Crores.

Moderator: The next question is from the line of Aditya Mongya from Kotak Securities, please go ahead.

Aditya Mongya: Sir, on the debt number that you are saying for the standalone entity which you are expecting to be about 700-750 Crores or so, are we here building in the equity investment that have to go in for the third BOT project?

Manish Mohnot: Yes we have built in equity investments which have to go in for the third BOT project and also investments which have to go in for Shubham right, so after building both of them in, we have targeted for 750-800 Crores debt level at the year end.

Aditya Mongya: Would it be fair to assume that these two line items would be broadly 150-200 Crores in total?

Manish Mohnot: 100-125 Crores in the next year because significant portion of the BOOT investment might go in 2017-2018 because we will achieve COD now and then it is monsoon, so our real investment in BOOT would start only by October, so significant investment of BOOT would go in to 2017-2018.

Aditya Mongya: Are we also building in a similar amount of let us say monetization coming from the real estate side from essentially Indore and Thane?

Manish Mohnot: So, not as much from Indore in the current year, but Thane in our projections we have assumed the full monetization of balance asset and current year not similar but slightly low, but yes we have assumed Thane monetization in the current year.

Aditya Mongya: Second question was on the geographical mix of the standalone order backlog being obviously more focused on domestic versus past years and that being the case, are there any implications for working capital requirements for this year?

Manish Mohnot: On standalone a lot of orders which came in Q3 and Q4 were without advance at that point of time on the domestic side but now going forward in the current year I think the working capital cycle on that will not deteriorate further. As far as Power Grid is concerned I think the working capital cycle is very similar to what it was in the last two years, the new working capital cycle which came in to existence in 2013-2014 is now fully implemented, so we do not see much deterioration coming in the working capital cycle on the domestic side also as of now.

Aditya Mongya: On the T&D portfolio the BOT portfolio of ours have there been any other updates that you would want to share on possible monetization that side? Essentially what was talked about was a financial investor essentially being roped in for the T&D BOT portfolio of ours, has there been any movement in that front?

Manish Mohnot: The discussion continues with the partner which we had discussed this entire portfolio, it has still not reached the level at which we have decided on signing on date or all of that although we have shared the term sheets and all of that, I personally believe we should see some traction coming in the next few weeks and if it does not happen we will start looking, there are lot of options in the market now, so if we do not see any traction happening in the next two, three weeks, then we will start looking at few other options besides this individual partner.

Aditya Mongya: Also, it is commendable that you are talking about a 25% plus growth for revenues in FY 2017, for the EPC company obviously we as analysts kind of slightly cautious on the ability of EPC company to be doing such growth numbers, are you kind of assuming dependence on certain works which can be outsourced or is the 25% number doable within our internal kind of capacities?

Manish Mohnot: I think a 25% is doable within our internal capacity and if you really look at it on a 2 year CAGR percent it would be less than 15. We have build capacities over the last few years but last year given the order book which was much lower we did not grow anything, so what we are doing and necessarily it is catching up on the previous year growth and current year growth, so I do not think we will have to depend a lot more on outsourcing, maybe 1 or 2% here and there which anyway happens in normal business also, otherwise this 25% we will be able to manage on our own set of competency this year.

Aditya Mongya: Any capex number that you would want to quote considering that after the 25% growth there would be limited room?

Manish Mohnot: We are looking at a capex number in the range of 125 to 130 Crores for KPTL, significant portion of it would be on the international business, 50 Crores plus on the international business on three or four new countries which we are getting in to, so approximately 125 to 130 Crores is the capex number which we are projecting for the current year.

Moderator: The next question is from the line of Ankita from B&K Securities, please go ahead.

Ankita: Sir, my question was regarding our debt numbers in JMC projects, we have a target of 60 Crores of almost capex and funding in the BOT assets of almost around 60-65 Crores plus working capital requirement for funding on growth of almost 10-12% on execution, so what makes us confident that the debt levels will not go up from the current level?

Manoj Tulsian: We are targeting a few things. We have few L1 positions where we are looking at getting some significant mobilization advance and also we are working on some of our money, which is stuck, receivables. We are trying to improve on the working capital side also and we are hopeful that some of those will materialize during the year, so the combination of two is giving us that confidence that we would be able to keep ourselves within the present debt level.

Ankita: Could you elaborate a little more on these key things that you have highlighted, how much would be the claims that are pending to be recoverable and where do you see working capital improvement because I do not see our working capital being stretched in JMC projects like at a comfortable level, so where do you see the scope of improvement in working capital cycle.

Manoj Tulsian: It is not because of claims. In any case, we do not factor claims which is not a part of our receivables, normal receivables which are stuck with some of very esteemed clients which has got delayed and we have been in discussion and working with them for the last 12 to 15 months and this year we have a reasonable visibility that those will materialize, so we can be slightly even better on our working capital management by the end of the year.

Ankita: Could you throw a number of stock receivables?

Manoj Tulsian: As you have put the arithmetic, if you see the capex of 60-65 Crores gets funded because we have depreciation of similar number and this BOT investment for sure, we are trying to bring in those efficiencies in our entire cycle, plus also the margins which we will generate during the year, the cash profit.

Ankita: Margin improvement I think we have had only 50 basis points.

Manoj Tulsian: But there will be a cash profit on a larger turnover with 8.5 to 9% margin we have cash profits also which will be available to fund working capital.

Ankita: What are the other projects that we have in L1 through one, you have already highlighted that we have got a pipeline project in Sri Lanka, other projects, key projects.

Manoj Tulsian: Others are mostly commercial and residential building in India.

Ankita: Could you highlight a few upcoming opportunities in African markets and some colour on how that market is shaping up in terms of new order pipeline.

Manoj Tulsian: As we said we are looking at two other countries at this point of time, Tanzania and Mozambique other than Ethiopia, Ethiopia is turning out to be a good country for us in terms of the business opportunity and mostly they are either in roads or elevated corridors like fly-overs and some area development work. These are the three areas where we are looking at opportunities in the international market.

Ankita: Our total exposure to residential real estate segment currently?

Manoj Tulsian: 50%.

Moderator: The next question is from the line of Ankit Shah from Vallum Capital, please go ahead.

Ankit Shah: Sir, what is the total IRR on all our BOOT projects if you have to give one number and my second question is regarding the economics of the Indore project, where do we see the cash flow coming back to us and what timeframe and what is the IRR what we see today as of today on all projects?

Manish Mohnot: Indore project as far as timing of cash flow we believe that we should see some cash flows coming in 2017-2018, not significant coming in 2016-2017 because it would all go for construction purposes, so 2017-2018 and 2018-2019 is where we should be able to get significant portion of our cash flows. On IRR basis we see it to be in the range of 12-14% IRR as far as concerned but these numbers could change depending upon the sales at price at which it gets sold being a very different set of business they are normal contracting business where we typically know the moment we have an order and this is dependent on the selling price which we are able to achieve, so that is on Indore.

We typically bid in the range of 15%, in the range of plus minus 1% on 15% post equity and on two BOT projects which we have running they are both giving us excess of 15% and the third one should also be in the same range.

Ankit Shah: Are you telling me that this is after all the cost overruns what we have incurred on the whole BOT portfolio and this is what would be our exit IRR if we bring any financial investor.

Manish Mohnot: Are you talking of IRR on transmission BOT or road BOT, I am sorry?

Ankit Shah: I am just talking about the road BOT?

Manish Mohnot: What I told you was on the transmission BOT not on the road BOT. Road BOT our IRR typically we bid at 11-12% range. I am not sure we would be getting those kind of IRR today if we have an investor given that the traffic projections are much lower than what we had perceived at the time of bidding, so it would be anyway single digit IRR if we had to exit now or maybe even low single digit IRR but as of now as I said earlier it is a completely buyers market, so we will have to just wait and watch what kind of offers we get and then we will have clarity on what is the IRR the buyers perceive in those projects.

Ankit Shah: Do you mean to say we would be able to recover our costs what we have sunken till now or we may have to take a hit?

Manish Mohnot: We might have to take some hit on at least one out of the four road BOT projects.

Ankit Shah: Nothing major if you look at the portfolio site, am I right?

Manish Mohnot: Nothing significant but again this is all assumption from our perspective. I would be happy to see the assumptions from buyer's perspective.

Ankit Shah: My last question is regarding Shubham, you have not done a very great job on building of Shubham, so do you think that in next two years we should wind out Shubham or exit Shubham and where does the thought process fit now?

Manish Mohnot: As of now the thought process is to rebuild the entire organization given that there was some senior level exits which happened in the last six months, so right now the focus is to rebuild the organization, revisit the trading and arbitrage portfolio and finally make sure that we reduce the cost to be very cost effective service provider, so once all of that is done, if we believe that the right solution is to exit the business we will look at it, but as of now our focus is completely to rebuild the organization.

Ankit Shah: No further capex or minimal capex and run it on the way we would do it.

Manish Mohnot: No further capex as far as Shubham is concerned, very minimal, few Crores here and there.

Moderator: Ladies and gentlemen, that was the last question. I now hand over the floor to Ms. Bhoomika Nair for closing comments. Thank you and over to you madam.

Bhoomika Nair: Thank you very much for taking time out for the call and answering all the questions and also all the participants for being on the call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.