



“Kalpataru Power Transmission Limited Earnings Conference Call”

August 01, 2011

Moderator

Ladies and gentlemen good day and welcome to the Kalpataru Power Transmission Q1 FY12 earnings conference call hosted by IDFC Securities. As a reminder for the duration of this conference all participant will be in the listen only mode and there will be an opportunity for you to ask question at the end of today's presentation. Should you need any assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you.

Bhoomika Nair

Thanks Melissa. Good morning everybody. Welcome to Kalpataru Power Transmissions 1Q FY12 results earnings call. The management is today being represented by Mr. Manish Mohnot, Executive Director, Mr. Pankaj Sachdeva, Managing Director and Mr. Kamal Jain, President and CFO. I would now like to hand over the call to Mr. Manish Mohnot for their initial remarks and post which we will take up the Q&A. Over to you sir.

Manish Mohnot

Thank you Bhoomika. A very good morning to everyone on the call. Our numbers for the 1st Quarter are slightly below our internal targets on revenue but on profitability we are very much in line with whatever our internal targets were. If you look at the numbers on a consolidated basis we have seen a growth of 19%, and when I say consolidated its Kalpataru and JMC, with consolidated revenue of Rs. 960 crores. On a standalone basis for Kalpataru Power our revenue has seen a modest growth of 7% with revenue in the range of Rs. 585 crores. Our EBITDA for the standalone Kalpataru is at 13.9% if you include the other income. If you exclude the other income EBITDA is at 11.4% which is what our projections were in the range of 11-12%. Our PBT for the quarter is at 8% with absolute amount of Rs. 47.3 crores and PAT at Rs. 33 crores is at around 5.7% of revenue. On a consolidated basis Kalpataru and JMC, our PBT is closer to Rs. 59 crores which is at a percentage closer to 6%. If you look at the order book we are in a very comfortable position with orders exceeding Rs. 10,600 cores on a consolidated basis out of which Kalpataru has an order of Rs. 5900 crores and JMC of Rs. 4700 cores. Just for the information of everyone this order excludes all the L1 orders and we are L1 today in closer to 5 to 6 orders on a consolidated basis. If we just look at the Quarter 1 numbers, yes, we have seen a slightly slower growth than what we expected. Two or three key reasons, one, few of our projects got hit by early monsoons which came in as early as May 3rd, 4th week this time. A couple of our large projects primarily in Maharashtra got impacted on that. It would not have impact on our overall numbers or overall projections and profits and revenue but on a quarterly basis we got impacted by early monsoons on a few projects.

On the infrastructure side one of our large project on the pipeline side, there was a slight delay from the client side on approval which we have got now, so in Quarter 1 some of our revenue is going to shift to Quarter 2 and 3 because of the delay on approval from the client. On the overseas side we have not seen major upsets in any form, we are on track as far as our projections are concerned. While Quarter 1 we have seen a smaller growth of closer to 7% on a standalone basis but our projections for the year continue to be what we had indicated earlier,

which is that on consolidated basis we should grow at 25% plus and on a standalone basis 15% plus given the current visibility of the order book.

I would now let question flow freely in terms of the Quarter 1 numbers.

Moderator Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Renu Baid from Batlivala & Karani Securities, please go ahead.

Renu Baid When you look at the domestic standalone business overall, how has the performance being on the overseas projects that you were executing specially in the troubled North African Middle East region? Have you seen the unrest cooling now and execution picking up in those regions? What is the outlook there?

Manish Mohnot Our presence was only in Algeria which has some impact in terms of last two quarters on revenue.

Renu Baid Rs. 150 crores was what you were having?

Manish Mohnot Yeah. Current quarter it has been much better than what we had expected in the last two quarters. But the projections also, we have reduced it in the current year itself because we knew that it will not pick up very quickly. So if you ask me in terms of projections to targets, to budgeted, we are on track, there is not a big difference, plus minus a few percent here and there.

Renu Baid But as for the business outlook, how is the business scenario there in terms of execution of projects for companies, for contractors who are operating in those geographies?

Manish Mohnot See at least on Algeria I can tell you things have improved significantly. We have got the labor, at one point of time the labor that had disappeared are back on track, the client approvals have started coming in. So I can say Algeria looks much better than what it was a few quarters ago. I would not have a view on the other countries because we are not present there today.

Renu Baid But would you be comfortable bidding and participating in fresh tenders that would be coming in these geographies, say over the 6-12 months, or you would slightly be a little more conservative to operate in those places?

Manish Mohnot I think we would be comfortable bidding in all of those countries now, because a lot of those things are now history.

Renu Baid In terms of the order book if you could just share how does the mix look segment-wise, domestic, international and client-wise?

Manish Mohnot I can give you that. You are talking of Kalpataru Power right now?

Manish Mohnot Right now we have on railways closer to seven orders, although 3-4 are slightly smaller in size but we have around seven orders, we have a nice team in place and we continue to bid for more. So if you ask me today railways order book is closer to Rs. 600 crores.

Renu Baid Overall on the JMC you feel reasonably comfortable that, yes, annually your 35% plus growth will look reasonable given the kind of orders that we have with us on books?

Manish Mohnot Definitely. 30-35% minimum growth on JMC should happen this year. While we need to deliver that given that last year was a lackluster, so 30-35% is bare minimum for JMC.

Renu Baid Thank you so much and all the best for the year to come.

Moderator Thank you. The next is from the line of Ashi Anand from Kotak, please go ahead.

Ashi Anand First question I had was in terms of the domestic transmission order book for Kalpataru Power. If you could just break that up between power grid orders and orders from state electricity boards? And with relation to state electricity board orders the question was relation to the outlook going forward within the kind of cash losses that government currently feels, how are you expecting the flows out of the state electricity boards to come through? If you could just dwell on that ?

Manish Mohnot Let us first give you the breakup of it. In terms of out of our order book which is around Rs. 2900 crores of domestic transmission, power grid would be closer to, if I have to do a percentage, 35% is power grid. Private companies which is primarily including our Haryana Boot, ESSAR , Adani would be another 25% and around 40% is from SEBs today. This is the broad breakup, plus minus 1-2% here and there could happen. Now your second question was for specifically SEBs, right? Now majority of our orders if not all today are funded as far as the SEB exposure is concerned. It is either funded by PFC or REC or World Bank. So to that extent from a funding perspective, from a player's perspective we are adequately covered. And a lot of these payments come directly to us and does not necessarily get routed through the SEBs. So significant portion of our SEB order today is funded and hence from a credit exposure perspective we are adequately covered. You had one more question on SEBs delivery related, right?

Ashi Anand No, actually both in terms of the expected order inflows because while we understand that they have a lot of funding mechanisms in place, we have seen World Banks, Power Grid, GSPs per se given the sure quantum of cash losses and the kind of focus they have on trying to mitigate that problem, just trying to understand the outlook in terms of incremental order inflows from SEBs. Is this likely to slow down vis-à-vis what we have seen over the last 2-3 years?

Manish Mohnot Personally my view is the 4 or 5 SEBs who are going to get significant component of the power from this ultra mega generation plants, you will still see a lot of orders coming in the next 12 to 18 months whether that it is Maharashtra, whether it is Gujarat, whether it is MP,

UP, Tamil Nadu, you will see a lot of orders coming in the next 4 to 6 months. Now beyond that, yes, we will have to wait and watch but whatever the planning is I think you will see enough exposure coming from or enough orders coming from SEBs in the next 6 to 12 months.

Ashi Anand We really have to see how the investments plans are really shaping up?

Manish Mohnot Sure.

Ashi Anand Over the short-term there is a UMPP related demand which should actually come through.

Manish Mohnot Exactly.

Ashi Anand Thanks a lot for the answers.

Moderator Thank you. The next is from the line of Kirti Dalvi from Enam Asset Management, please go ahead.

Kirti Dalvi A few questions, if you could throw a bit of light on individual segment outlook in terms of standalone business as well as JMC and Shubham Logistic.

Manish Mohnot If you look at the individual segments of Kalpataru Power, let us start from there, domestic transmission and overseas transmission we have a very decent orders excluding the L1 and in terms of growth whatever we had projected as 15% plus growth should not be a problem for these two segments at all. If you look at the infrastructure division which consists of, primary in our pipeline and railways, railways has a very decent order book while we speak. Pipeline order book has not grown significantly but we have bid for a lot of tenders so we should see some growth happening there. But today in terms of pipeline order book, yes, we do not have visibility beyond 6 to 9 months and that is one grey area for us as far as order book is concerned. As far as the market scenario in terms of new tenders coming in, I do not expect any slowdown neither in transmission domestic, nor overseas, nor railways, nor pipe line. So there is a demand. It is only about getting the right order at the right price.

Kirti Dalvi How much do we see the infra segment growing this year?

Manish Mohnot We have projected a growth of closer to 20% of the infrastructure in the current year. It would be more than 20% but a minimum of 20% in the current year.

Kirti Dalvi JMC and Shubham Logistics?

Manish Mohnot If you look at JMC today in terms of order book, our order book is obviously the highest what we have ever seen at JMC levels and it is closer to 100% growth as compared to what we were 18 months ago. On that if you have to divide that order book into the key areas, let us start with power which was the most impacted area last year in terms of order to revenue. We have seen traction on majority of our clients in terms of getting the environment clearance approval but

still a couple of clients, there has been some slowdown because they have still not received the complete environment approval. So if you ask me power in terms of what we budget versus what we will achieve, are they comfortable? The answer is, yes, because the budget itself is at reasonable levels. Buildings and factories, significant portion of our order book, we have not seen any slowdown there. We still continue to receive orders. There always is a challenge of labor in the entire sector that we are, but not significant slowdown seen in buildings and factories and we will be on track to deliver what we have projected. Infrastructure, which includes primary roads and water and other areas, we have a very decent order book and given that Rohtak-Bawal we have already achieved the financial closure and things have moved and Agra-Aligarh also we are on the verge of achieving it and things will move there, I think we will be on track to achieve that 30% plus growth which we had projected.

- Kirti Dalvi** This Nagpur-Wainganga EPC order is a part of our JMC order book currently?
- Manish Mohnot** The Nagpur-Wainganga EPC order is a part of our JMC order book.
- Kirti Dalvi** How much would be the quantum?
- Manish Mohnot** It is closer to 367 crores, in that range.
- Kirti Dalvi** But we have not achieved any financial closure for the same?
- Manish Mohnot** No, the concession agreement was just signed a month ago, so there is still time to go.
- Kirti Dalvi** In terms of the margins, in their respective segments?
- Manish Mohnot** On an overall basis JMC we still believe will be able to achieve margin is what we had projected which is at the 8% plus levels. You might see a small improvement but nothing significant expected.
- Kirti Dalvi** Regard EBITDA margins, you are talking about?
- Manish Mohnot** The EBITDA margins.
- Kirti Dalvi** In terms of T&D and infra?
- Manish Mohnot** On a Kalpataru we still continue with our projections of EBITDA in the range of 11-12%. On a quarter-on-quarter basis you might see some plus and minus, on an annual basis we still believe we will be in that range.
- Kirti Dalvi** In this particular quarter our staff cost has gone down. Any particular reason for the same?
- Manish Mohnot** Its couple of them, one, one of our divisions which all of you all would be aware that distribution we have significantly reduced our exposure there. To that extent a lot of people

there have already shifted out. So that has been one reason where our manpower cost as well as number have reduced. We have reduced our exposure in distribution project significantly, we still have a few projects but the exposure has reduced significantly, this has been the key reason. Second, looking at the current competitive scenario, obviously the increments are not as high as they used to be always in the past.

- Kirti Dalvi** What is your consol debt?
- Manish Mohnot** Console debt today would be in the range of Rs. 900 crores.
- Kirti Dalvi** Average cost of debt for the same?
- Manish Mohnot** At a consol level average cost of debt would be again in the range of 10-10.5% only.
- Kirti Dalvi** This Kuwait project is over in terms of the execution front?
- Manish Mohnot** There are three components of the project, Phase 1, Phase 2 and Phase 3. Phase 1 is over. The documents have already moved in terms of closure and we should get a significant of our block money in the next two months. Phase 2 also deliveries complete, the documentation is happening. Phase 3, the project which was related to that KOC area which is the Kuwait Oil Company area, should get over in the next two weeks, August-mid, August-end kind of.
- Kirti Dalvi** But how much money is yet to come from Kuwait? All put together?
- Manish Mohnot** Closer to US \$60 million.
- Kirti Dalvi** Which we expect by, say, December end?
- Manish Mohnot** I would say significant portion by December end, the retention part which would be closer to around US \$8 million, might come up later.
- Kirti Dalvi** So by year-end how much would be our consolidated expected one, including this contribution to Nagpur-Wainganga project?
- Manish Mohnot** In the range of Rs. 1100 crores plus minus.
- Kirti Dalvi** Thank you very much and wish you good luck.
- Moderator** Thank you. The next is from the line of Rahul Agarwal from AnandRathi, please go ahead.
- Rahul Agarwal** Two questions from my side. One thing on the Kalpataru standalone business you said top-line was not as expected as what you had internal estimates and that was mainly because of two reasons. First was, as you said, early monsoon impact which impacted execution of Maharashtra order and also there was delay in client approval for pipeline project. Am I right?

- Manish Mohnot** Right.
- Rahul Agarwal** Could you help with quantifying this amount in terms of what was your top-line estimate for the standalone business and how did it disappoint?
- Manish Mohnot** In terms of what we were expecting in the 1st Quarter was a growth of around 10-12% and we have achieved only 7-8%, so there has been a reduction in growth of 3-4%. I would say 70% of that has come out of the Maharashtra project because of monsoons and 30% of it is due to some delay on the infrastructure project.
- Rahul Agarwal** My next question is on the margins. If I see the segmental performance, our EBIT margin was actually corrected by 200 bps in transmission and 600 bps in the infra segment. Any specific reason or is this again quarterly thing and we will be back on track for the rest of the year in terms of consol margins being 11-12% as you said?
- Manish Mohnot** Are you comparing EBIT margin with Q-o-Q or with the previous year's consol numbers?
- Rahul Agarwal** Previous year standalone Kalpataru standalone YOY?
- Manish Mohnot** We continue to say that at EBIT level we will be in the range of 11 to 12% and on Q-on-Q you have sometime some impact coming-in but on a consol basis we will definitely catch up.
- Rahul Agarwal** Any specific reason for infra margins going down to 3%, EBIT margins in this quarter?
- Manish Mohnot** Because our revenue what we had projected on a particular point and what I indicated, did not show up in the previous quarter and because of that your overheads obviously get impacted. But you should see it catching up in the next few quarters.
- Rahul Agarwal** Just one small question, how have you seen the PLF in the biomass segment because it seems our top-line was close to 10.6 crores, I think it is broadly in the range of 12.5-13 crores every quarter?
- Manish Mohnot** Yeah, it is broadly in the range of similar level every quarter, plus minus depending on the raw material cost what we procure.
- Kamal Jain** In this month we had some plant shut down so there has been a lower revenue.
- Rahul Agarwal** Thank you very much.
- Moderator** Thank you. The next is from the line of Vishal Saraf from SBI Mutual Fund, please go ahead.
- Vishal Saraf** If you could give the segment-wise order book details?
- Manish Mohnot** You are talking of Kalpataru Power right now, right?

Vishal Saraf Yeah.

Manish Mohnot The total order book is at the range of Rs. 5900 crores and if you look at the breakup, T&D domestic which is closer to 50%, overseas is 35% and infra plus distribution 15%, out of which distribution is small component of around 1-1.5%.

Vishal Saraf Can you also give me similar details for order inflow for the quarter?

Manish Mohnot If you look at order inflow for the quarter what we have declared, we have declared orders worth closer to Rs. 1000 crores, significant of it came out of our Ukraine which was the overseas, which is closer to Rs. 825 crores. And if you look at overseas it was closer to Rs. 850 crores in the 1st Quarter. Maharashtra which is TL domestic around 4Rs. 57 crores in the 1st Quarter.

Vishal Saraf That will be in JMC or Kalapatru?

Manish Mohnot Maharashtra transmission.

Vishal Saraf But you said Rs. 825 is Ukraine, right?

Manish Mohnot Right.

Vishal Saraf Of Rs. 1000 crores inflow?

Manish Mohnot No, the inflow was more. Okay, the net inflow. If you look at the gross inflow, it is closer to Rs. 1500 crores.

Vishal Saraf In the gross inflow Rs. 500 crores is TL domestic, Rs. 900 crores plus is TL international and Rs. 100 crores is railways.

Vishal Saraf In domestic it is primarily Maharashtra order?

Manish Mohnot It is primarily Maharashtra order but we are now L1 in a couple of orders including one power grid order, so you should see that order coming in soon.

Vishal Saraf Significant part this quarter seems to be this Ukraine order, so how do you see things there and what kind of margins are there in the international orders?

Manish Mohnot Typically international orders since they have slightly higher risk as compared to the domestic orders the margins are slightly higher but from every country it is different depending upon the size of the project, the cost, the strategy all of that. The good point about the Ukraine order is that it is a price variable order so the complete thing is a pass-through to the client. In terms of today our order book, more than 80% of our order book is variable price which is a very positive thing in the current

volatility today but otherwise margins typically international are slightly higher than domestic because of the higher risk which they have.

- Vishal Saraf** That's all from my side, thanks a lot.
- Moderator** Thank you. The next is from the line of Anubhav Gupta from Kim Eng Securities, please go ahead.
- Anubhav Gupta** As of today what percentage of total back log would have a price escalation clause at both KPP and the JMC front?
- Manish Mohnot** KPP is in excess of 80%. In reality it is much more in the sense if given that we have dispatched a lot of steel on the fixed price, in reality it would be higher than that but on books it is 80% plus. As far as JMC is concerned it is closer to 70%. This is what they have price variable.
- Anubhav Gupta** 80% for KPP includes both for domestic and foreign contracts?
- Manish Mohnot** Yes.
- Anubhav Gupta** Thank you.
- Moderator** Thank you. The next is from the line of Jigar Shah from Kim Eng Securities, please go ahead.
- Jigar Shah** I was really hoping to congratulate you guys but I think the next quarter the turn will come, numbers will look much better I hope. My point was on the biomass, it is continuing to drag the improvement in the overall earnings. So what is your take? We have about 100 crores of capital employed in that business so where is it heading?
- Manish Mohnot** I think if you look at the drag it has only been last year where we had to drag primarily because of non-availability of monsoon in Rajasthan, because of not availability of water in Rajasthan. Current quarter you will not see a drag. In the 1st Quarter we had shut down, which is a shutdown we have once in a year. So we have that shut down in the 1st Quarter and this is what gets planned every time. But on an annual basis you will not see of drag at all on the balance sheet.
- Jigar Shah** Last year you made about 3 crores of profit in that business, what kind of percentage profit or numbers we can expect this year?
- Manish Mohnot** You will see numbers in the range of 3.5-4 crores.
- Jigar Shah** Also can you give some update on Shubham?
- Manish Mohnot** Our locations what we have, 13 of own and 38 RSWC are at occupancy levels of 80% plus today on an average, more closer to 85-86%. The 1st Quarter we have seen revenues in the range of Rs. 25-26 crores with EBITDA numbers in the range of 14-15%. You will see some improvement coming on

from Quarter 2 onwards because typically Quarter 1 is lackluster because lot of movements happen in terms of the shifting of materials and all of that and because that is the time when the entire agriculture produce happens and then the storage starts from May-June onwards, you will see a significant improvement coming from Quarter 2 onwards. On an annual basis we are expecting this business to give us a top-line of closer to Rs. 175-190 crores with EBITDA in the range of 14-15%.

Jigar Shah One last question, when do you start consolidating on the quarterly basis Shubham, JMC so that one gets a really clearly picture?

Manish Mohnot Good question. I need to come back to you. We have been discussing this internally.

Jigar Shah My feeling is this is affecting our valuation. I think Kalpataru from whatever what I have known is a highly qualitative and probably much better company, well diversified as an infrastructure company than many others and probably we are suffering due to people not getting a very clear single picture?

Manish Mohnot It is a valid point. Just give us some time and we will come back to you. We need to just have some discussions internally. Hopefully we should see that coming very soon.

Jigar Shah Thanks a lot and all the best.

Moderator Thank you. The next is from the line of Sumit Poddar from Birla Sun Life Insurance, please go ahead.

Sumit Poddar I just wanted to ask the difference between the gross inflow and the net inflow? What has led to this difference?

Manish Mohnot The difference is the revenue for the quarter, that is how we define it at least internally.

Sumit Poddar Got it. I thought are there any cancellations?

Manish Mohnot No, not at all.

Sumit Poddar Now that there is already a leadership change at PGCIL, how do you see PGCIL orders flowing in?

Manish Mohnot From a timing perspective I still believe that the significant portion of the orders will flow in Quarter 3 and Quarter 4 because that has been the history for the last 10-12 years. Given that the change is going to happen only sometime in Quarter 2, I still believe significant portion of the order will come and Quarter 3 and Quarter 4.

Sumit Poddar What is the current pipeline or the overall tenders being floated at PGCIL?

- Manish Mohnot** We currently are bidding or have bid with combination for tenders closer to Rs. 4000 crores for which they have still not opened the price bids.
- Sumit Poddar** Thanks so much and all the best.
- Moderator** Thank you. The next is from the line of Sandeep Tulsian from JM Financial, please go ahead.
- Sandeep Tulsian** My first question is regarding the other income we have seen a very significant increase during the quarter if we compare it on a YOY basis. Is there any one-time income in the same?
- Manish Mohnot** Sandeep, this major jump in other income is because of our unutilized QIP funds and an interest on that. If you see our press release also we have said closer to Rs. 175 crores of QIP fund is undeployed, which means obviously it is earning some interest. A significant portion of it is because of that.
- Sandeep Tulsian** Secondly, amongst the PGCIL orders which are being tendered right now, what kind of competitive intensity are we seeing from other players? As we know the french players had increased quite a lot in the last year, so are you seeing a similar kind of trend within orders where you placed bids right now?
- Manish Mohnot** French players in transmission?
- Sandeep Tulsian** As in players who were not having a significant portion of orders....
- Manish Mohnot** Okay, fresh players.
- Sandeep Tulsian** They are getting into JV and bidding for projects that they were not qualified earlier.
- Manish Mohnot** We still do not see a lot of competition from international guys as far as transmission lines are concerned. One-off we have seen them on PGCIL. On BOT projects it is different. On PGCIL the competition is primarily all the Indian players. The competition continues to be there. There are still people who continue to bid but power grid needs to take a call in terms of that people who are delivering versus non-delivering and for example, last year in Quarter 4 Power Grid took some calls and hence all of us got some orders. But competition continues to be there as far as transmission domestic orders are concerned.
- Sandeep Tulsian** Lastly, what is your likely CapEx for the current year?
- Manish Mohnot** On a standalone basis or consolidated?
- Sandeep Tulsian** Both.
- Manish Mohnot** On a standalone basis in the range of Rs. 100 crores. On the consol basis in the range of Rs. 160 crores plus.

- Sandeep Tulsian** Thank you very much.
- Moderator** Thank you. The next is from the line of Kirti Dalvi from Enam Asset Management, please go ahead.
- Kirti Dalvi** Just a follow-up question on this CapEx itself. This Rs. 160 crores does that include your contribution to BOT projects further, I mean this Nagpur-Wainganga?
- Manish Mohnot** No, it is not because that would be equity and not as much CapEx.
- Kirti Dalvi** So how much investment we further envisage in this particular project?
- Manish Mohnot** To get this completely right, now all these investments should be done out of JMC. JMC we have pumped in, as you know last year in JMC, closer to Rs. 100 crores through the preferential allotment. The total investment of JMC in all the three equity assets which we have, including what we have already..... if you see implemented in the current year, should be in the range of Rs. 80-100 crores.
- Kirti Dalvi** Which will finally go into this Nagpur-Wainganga?
- Manish Mohnot** No, which will also go into Agra-Aligarh. While we have received the sanction the closure is not done from NHAI, so it includes Agra-Aligarh because Nagpur-Wainganga would be very minimal. By the time you achieve financial closure would be maybe end of Quarter 3 and in the 1st Quarter you have very minimal, so majority would be on Rohtak-Bawal and Agra-Aligarh.
- Kirti Dalvi** There is no any advances or loans that are required to our BOT transmission project?
- Manish Mohnot** No, I think we have pumped in the entire equity. The project would be done by December, much before that hopefully. Before Quarter 3 the project would be over. Quarter 4 will show some revenue coming out of that.
- Kirti Dalvi** That will be the annuity of almost Rs. 52 crores odd, if I am not wrong?
- Manish Mohnot** Rs. 54 crore.
- Kirti Dalvi** Any update on the real estate front, the Thana land and any update on that front?
- Manish Mohnot** Thana, the development is on track. We had planned that the development would be over by Quarter 4 of the current year which I think will happen. In the last review we were told that by March the development should be over. So 1st Quarter of next year you will start seeing revenue of Thana. At Indore, we still are finalizing our plans and you will need to give us some more time to have a clear concrete plan because we have two or three options, we are just looking at those.

- Kirti Dalvi** What kind of contribution do we foresee from Thana real estate?
- Manish Mohnot** You will have to give us one more quarter to give you the exact numbers because right now we are getting leads from people as to rates and all of that but in the next month or so we will have complete clarity on that.
- Kirti Dalvi** But any further investment required? What kind of investments rather by FY12 we would invest in this venture?
- Manish Mohnot** Not significant, very small component because majority of it is now getting funded by debt but may be in the range of some Rs. 5 to 10 crores kind of debt but not significant.
- Kirti Dalvi** This Rs. 1000 crores odd debt is including all these expenditure whatever we have planned, right?
- Manish Mohnot** Yes.
- Kirti Dalvi** Last question, what is our order inflow in JMC in Q1?
- Manish Mohnot** Q1 JMC order inflow has been around Rs. 925 crores of gross inflow.
- Kirti Dalvi** Thank you very much.
- Moderator** Thank you. The next is from the line of Ashi Anand from Kotak, please go ahead.
- Ashi Anand** I have a couple of follow-up questions. The first question I actually had was with relations to the railways business, 3-4 years from now how large do we see this actually being and are we currently pre-qualified to bid for dedicated freight corridor projects?
- Manish Mohnot** Let me answer your second question first. We are currently qualified for a lot of the railway projects but some of them which might be large in size we might not qualify at Kalapatru but we have our partners along with whom we can qualify. We have shortlisted two or three partners including one international with whom we can bid whenever the qualification is an issue. So from our perspective either Kalpataru or along with our consortium partners we will qualify for majority of the DFC. Now the first question, where do you see this business heading towards, we see this business to be a very large business in terms of EPC contracting three to four years from now. We have built a good team of around 30 people who have already come in and we have won some good orders. So we see business is growing at least at a 20% rate for the next 2 to 3 years and then we will see how the environment and the industry changes.
- Ashi Anand** The second question I had was with relation to BOT projects in transmission. How aggressively are we as Kalpataru reaching at it and investing in these projects and are there

any kind of limits that we have set as the company in terms of the total quantum you are likely to invest then, BOT transmission line projects?

Manish Mohnot Again I would like to answer the second one because it is the easier one. Yes, we have internal limits already defined in terms of the entire investment in BOT, whether it is at a Kalpataru, JMC or any level and will work within those limits. Knowing us well and knowing our balance sheet well we are not going to stretch ourselves a lot. The first question about the transmission BOT projects, yes, we are participating in some of them. In some of them as EPC contracts and some of them with a small equity stake, but our strategy would be very clear that we are not going to look aggressively on transmission BOT projects. And when I say aggressive, on EPC we could still be an aggressive because we believe that today we are still the best cost providers in EPC on transmission side. But as far as ROEs is concerned we have still not bid at levels below that 16-18%.

Ashi Anand My last question, with relation to the international orders on transmission if can you give some outlook in terms of how you are expecting international orders per se any key kind of projects that you are seeing coming up in any of the international geographies?

Manish Mohnot We are currently bidding for maybe around 8 to 10 large projects, some of them in Africa, some of them in the Middle East and few of them in the CIS countries and some of them also in U.S. In terms of the breakup, where do we expect things to happen? I think the opportunity in Africa and CIS countries look much bigger than what the other opportunities are today. So our focus would continue to be the African belt and the CIS belt.

Ashi Anand If I just look at it vis-à-vis a couple of years ago, is the opportunity size reduced or is it similar or has it actually increased over say, 2008?

Manish Mohnot Over 2008, it has definitely increased. 2008-2009 was when the recession was what was in everyone's mind it has definitely improved as compare to....

Ashi Anand Actually I am talking of before the recession.

Manish Mohnot Before the recession I think we are at similar levels because now the funding is available to a lot of those countries. There is money which is available and there is a lot of focus on generation which indirectly results in a lot of opportunities on the transmission side.

Ashi Anand Thanks a lot for the answers.

Moderator Thank you. The next is from the line of Ritesh Poladia from RBS, please go ahead.

Ritesh Poladia Question is on Shubham, what would be the balance sheet size of Shubham as of now?

Manish Mohnot Closer to Rs. 130 crores.

- Ritesh Poladia** Have we taken over those Rajasthan warehouses?
- Manish Mohnot** Yeah, the 38 warehouses we have taken a long time ago. That is not on our balance sheet. That is an arrangement for five years. That does not come on our balance sheet.
- Ritesh Poladia** What are the major cost items in Shubham like 85% would be our cost. It would be rentals or some other thing?
- Manish Mohnot** It is a combination of everything. It is a combination of rental, interest costs, at the EBITDA level if you look at the rental, wages, the procurement related cause, the laboratory expenses, and it is a combination of everything.
- Ritesh Poladia** Have you launched those branded pulses?
- Manish Mohnot** Not pulses, but some components of branded stuff we have launched more on the spices and dry fruits, but which is primarily only in Rajasthan as of now, more focused on B2B not as much on B2C.
- Ritesh Poladia** When we can see the traction in that business?
- Manish Mohnot** We already started seeing the traction and you will see that in the current year in terms of retail volume picking up on the B2B side.
- Ritesh Poladia** Approximate turnover target from that business from branded commodities?
- Manish Mohnot** Closer to Rs. 40-50 crore.
- Ritesh Poladia** So that might have 100% CAGR for the next 3-4 years till it gets some base?
- Manish Mohnot** Sure.
- Ritesh Poladia** That's all from my side, thanks.
- Moderator** Thank you. The next is from the line of Rajeev Kumar from Escorts Mutual Fund, please go ahead.
- Rajeev Kumar** My question is on you have a project on infrastructure or in gas sector, this is joint venture with HPCL and the Mittal, when this project is going to get commissioned?
- Manish Mohnot** That project is over, it is already commissioned.
- Rajeev Kumar** What will be the impact on your top-line?

- Manish Mohnot** That project was over in the previous year last quarter itself. That project the revenue is done, everything is done. Obviously some cash flow is yet to come in, last few bills pending, but as far as work is concerned the significant portion or I would say the entire project was over the previous year.
- Rajeev Kumar** How much is this project contributing to your top-line?
- Manish Mohnot** In the previous year?
- Rajeev Kumar** Yes.
- Manish Mohnot** In the previous year it would have contributed closer to Rs. 200-225 crores.
- Rajeev Kumar** Thank you very much.
- Moderator** Thank you. The next is from the line of Rajendra Mishra from IDFC Mutual Fund, please go ahead.
- Rajendra Mishra** Basically just wanted to know, between domestic and international, what is the contribution in consolidated order book and consolidated EBIT?
- Manish Mohnot** Consolidated order book, KPTL and JMC put together, that is number you are looking at, or consol for KPTL?
- Rajendra Mishra** No, I was looking for only the international portion of the book, the contribution and book and the contribution in EBIT?
- Manish Mohnot** See international portion contributes closer to 35-40% of our revenue. And in terms of EBIT I am seeing at a company level we still continue to see 11 to 12%. It depends from project-to-project.
- Rajendra Mishra** In terms of order book, how much?
- Manish Mohnot** Order book today it is around 35% and revenue also they would contribute closer to 35 to 40%.
- Rajendra Mishra** What will be the strategy going forward for the overseas?
- Manish Mohnot** We will continue to bid for more orders in the overseas and the strategy clearly would be to focus more on orders which have variable price clauses whereas the fixed price, given the current volatility which exists not only in currencies but also in commodities.
- Rajendra Mishra** Any reference for any geographies as such, where you can see traction building in?

- Manish Mohnot** I think the African belt and the CIS belt looks like good geographies and there is enough traction there.
- Rajendra Mishra** Who will be the players competing with you on that space?
- Manish Mohnot** Majority of the players who compete overseas are Indians only. I am sure you know all of them.
- Rajendra Mishra** The local ones, any local...
- Manish Mohnot** Majority are Indians.
- Rajendra Mishra** But why is that, there are no other players and just Indian players there?
- Manish Mohnot** There are some which come from Middle East, there are some which come from Korea but you see there is a difference. In all of these countries the transmission line is not like the biggest opportunity in those countries because five lines of transmission will cover the entire country unlike country like India where you may need 500 lines or maybe 10,000 km lines. But if you go to a Middle East or African belt a 2000 km will cover the entire country. So, opportunity that way in terms of size and that is why we have not seen many local competition.
- Rajendra Mishra** Thanks.
- Moderator** Thank you. The next is from the line of Sudhakar Prabhu from Span Capital, please go ahead.
- Sudhakar Prabhu** Just needed one data point, what is the gross debt and the interest cost fees?
- Manish Mohnot** At a consol level or the Kalpataru level?
- Sudhakar Prabhu** Both.
- Manish Mohnot** At the Kalpataru level in the range of Rs. 525 crores, with interest cost in the range of 10.5%. At a consol level including Shubham, including JMC all of that is closer to Rs. 900 crores and if you ask me consol interest rate it is in the similar range.
- Sudhakar Prabhu** But the interest which you have charged in the P&L at the standalone is around Rs. 22 crores. So, if I just analyze that then the interest rate looks to be more on the higher side?
- Manish Mohnot** You cannot analyze it in that form because debt is always at a given point of time whereas the interest is over the entire period, one. Second, interest also includes a lot of interest which we pay in advances to customers. What happens in our business is you get advance from customer and that is what we believe, that is more important than looking at the interest cost on it so it

includes that component also. So if you look at advances from customers, it will be in the range of Rs. 250-300 crores right now.

Sudhakar Prabhu What will be the interest on this amount?

Manish Mohnot It is different, some who give at 8%, some at 12%. There are different levels for each contract it is different.

Sudhakar Prabhu Thank you.

Moderator Thank you, the next question is from the line of Harshad Shukla from KR Choksey, please go ahead.

Harshad Shukla My question pertains to JMC projects. Just want to understand that in JMC we generally take different type of projects, some of road projects and some of residential projects and we have office building projects. Just wanted to know that is there any margin differential these projects have and if yes, then why all the projects have different kind of margins?

Manish Mohnot The margins definitely are different on all kind of projects and let me explain you the reason. There are three kinds of projects we do in JMC. One, complete EPC which includes design, built, all of them. But typically your margins are slightly higher because the risks are also slightly higher. Second, our projects which are only labor supplied where the material is provide by the client. On this margins are much higher because in terms of revenue and in terms of what you are doing its only labor and the material risk is completely with the client, so it is all supplied by the client and third is EPC on our own BOT projects where the margins are the minimal because you are not allowed to recognize them and that is how we normally bid. So that is a mix of all three.

Harshad Shukla But in terms of the residential contracts and the office building contracts is there any difference between the margins in between.

Manish Mohnot It is depending upon whether it is material which supplied pre-supply from the clients or material is our responsibility.

Harshad Shukla But do we have a general trend that like in office buildings or maybe in the residential buildings in most of the contracts the material supplied by the client and we only supply the labor.

Manish Mohnot Actually you are right. 70% of our order book today between 60 and 70% the material is supplied by the clients in buildings and factories.

Harshad Shukla In rest of the 30% we do the complete EPC?

Manish Mohnot Yes 30 to 40%.

- Harshad Shukla** Is that 70:30 percentage kind of ratio that you just mentioned. Is it like do expect that this ratio will change going forward and more complete EPC orders will come in or is it like this ratio will be maintained going forward as well.
- Manish Mohnot** I think this ratio till three years ago used to be 90:10 not 99:1. It has improved and we will definitely see some improvement. As we build our competencies we will look at bigger projects and with complete EPC because that is where our expertise is.
- Harshad Shukla** But with more number of complete EPC contracts coming-in in our order book and this ratio might go up to 60%, 40% complete EPC, do you think that margins will be lower on a blended basis?
- Manish Mohnot** Actually no, because what happens is once you get the EPC projects your volume is very significantly higher and then you have some bought out materials and all of them where you have a good negotiating skills given that large procurement of Kalpataru. On totality it would not have an impact at all.
- Harshad Shukla** This last question on the transmission side. We are seeing a couple of delays in lot of the capital goods companies who are having exposure in power sector, they are seen execution delays on the power generation side. Do you see that it could impact the power transmission side and could result into a delay on the power transmission as well?
- Manish Mohnot** As of now we have not seen any significant delay because if you see what transmission we are doing right now is primarily for generation which is at a very advanced stage. As of now we do not see anything. But, yes, we are also in the wait and watch situation there. But as far as power grid plans for the current year as far as the SEB plans and as far as the private boot, whatever those plan looks like, target at least for the next 12 months.
- Harshad Shukla** Is there any particular reason why Power Grid has not come up with the similar kind of order that they came in Q4 FY11 in this quarter, is it because of any procedural reason or is it.....
- Manish Mohnot** Typically if you look at power grid it has always been the trend that majority of the order comes in Q3 and Q4 and not in Q1 and Q2.
- Harshad Shukla** That is all for my side, thanks for taking my question.
- Moderator** Thank you. The next question is from the line of Deepak Katwani from Batlivala & Karani Securities. Please go ahead.
- Deepak Katwani** Just a couple of questions on the BOT project of JMC. How much is the equity investment till date in this BOT projects.
- Manish Mohnot** On the transmission project, right?

- Deepak Katwani** No, on the JMCs BOT projects for the Rohtak-Bawal and Agra-Aligarh?
- Manish Mohnot** Till now the equity which we have put is around Rs. 90 crores.
- Deepak Katwani** You said that 8Rs. 0-100 crores will be invested this year FY12?
- Manish Mohnot** Yes.
- Deepak Katwani** What is the CapEx we are expecting at JMCs front?
- Manish Mohnot** Closer to Rs. 50 crores.
- Deepak Katwani** So I believe we are at a comfortable position to fund all these equity investments and CapEx?
- Manish Mohnot** Yeah.
- Deepak Katwani** So we do not require additional funds to be raised.
- Manish Mohnot** Not at all.
- Deepak Katwani** One more question what is the IRR we are expecting on the Rohtak-Bawal and Agra-Aligarh project?
- Manish Mohnot** As I said earlier typically we do not bid at IRR below 16 to 18%, that is our benchmark and that is the number we are expecting out of all our BOT projects.
- Deepak Katwani** Thanks.
- Moderator** Thank you. The next question is from the line of Rahul Agarwal from Anand Rathi, please go ahead.
- Rahul Agarwal** Just one follow-up question. Could you help me with the utilization of the balance QIP funds of Rs. 175 crores going for the next 12 months and a rough timeline into each segment?
- Manish Mohnot** Some portion of this amount would be deployed in our Raipur plant which would happen by December and the balance portion is primarily kept to look at a few BOT assets as well as the few assets overseas in terms of transmission, manufacturing assets. Exact timelines of it I do not have clarity as of now, we are at discussion at various levels. But hopefully before the yearend we should be in a position when we would have deployed this entire Rs. 175 crores.
- Rahul Agarwal** So Raipur will have an incremental investment, all of this Rs. 175 crore or how much?
- Manish Mohnot** Closer to Rs. 40 crores.

- Rahul Agarwal** Any bifurcation for the transmission manufacturing assets overseas and BOT assets here in India?
- Manish Mohnot** We have been looking at a lot of opportunities. So I am not in the position to give you the bifurcation now.
- Rahul Agarwal** Thank you.
- Moderator** Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.
- Swarnim Maheshwari** Just one question for my side. At the end of Q4 FY11 our order book of KPTL was around Rs. 60 billion and at the end of Q1 FY12 it is at Rs. 59 billion, correct?
- Manish Mohnot** No, at the end of Q4 it was Rs. 55 billion as of 31st March and right now it is around Rs. 59 billion.
- Swarnim Maheshwari** Thank you.
- Moderator** Thank you. The next question is from the line of Piyush Nimgaonkar from IDBI Capital Markets. This will be the last question. Please go ahead.
- Swarnim Maheshwari** Just wanted to know, are you looking at US as an opportunity because other transmission companies are looking at from a tower manufacturing per se and basically how do you look at it from entry perspective or are you looking at it at this point of time?
- Manish Mohnot** Let me answer your easier question. Yes, we are definitely looking at it. We have already supplied more than 20,000 tons to US in the last two years. We are looking at that opportunity primary for tower supply as of now. But we also plan to be there as an EPC player in the next 3 to 5 years. Now that opportunity entails buying a company there or setting up a tower manufacturing unit, I do not have that answer today. But from our Indian plant we are definitely looking at that opportunity.
- Swarnim Maheshwari** Thanks.
- Moderator** Thank you. I would now like to hand the floor back to Ms. Bhoomika Nair for closing comments. Please go ahead.
- Bhoomika Nair** Thank you everybody for being present on the call and especially the management for taking time out to answer all the questions. Thank you very much, sir.
- Manish Mohnot** Thank you, Bhoomika.

Moderator

Thank you. Ladies and gentlemen on behalf of IDFC Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.