



# “Kalpataru Power Transmission & JMC Projects Q4 FY12 Earnings Conference Call”

**May 22, 2012**



## **MODERATORS:**

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|---------------------|---|
| Mr. Pankaj Sachdeva | – Managing Director, Kalpataru Power and Transmission |
| Mr. Manish Mohnot   | – Executive Director, Kalpataru Power & Transmission  |
| Mr. Kamal Jain      | – President & CFO, Kalpataru Power and Transmission   |
| Ms. Bhoomika Nair   | – IDFC Securities Limited                             |

**Moderator**

Ladies and gentlemen, good morning and welcome to the Q4 FY'12 Earnings Conference Call of Kalpataru Power Transmission & JMC Projects hosted by IDFC Securities Ltd. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need 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 now hand the conference over to Ms. Bhoomika Nair from IDFC Securities Ltd. Thank you and over to you Ma'am.

**Bhoomika Nair**

Thanks. Good morning, everyone. Welcome to Kalpataru Power's Q4 FY'12 earnings call. The management is being represented by Mr. Pankaj Sachdeva-Managing Director, Mr. Manish Mohnot-Executive Director and Mr. Kamal Jain-President & CFO. I would now like to hand over the call to the management for their initial remarks, post which we will take up the Q&A. Over to you sir.

**Manish Mohnot**

Thank you, Bhoomika. Good morning, everybody. We have declared the results for Kalpataru & JMC in the last few days, and I am sure all of you would have seen the results. Before we proceed on the Q&A session, I thought I would just give you a quick snapshot of what the results were. In Kalpataru Power we have achieved 20% sales growth in the quarter and 5% for the entire year. Although the last quarter was satisfactory in terms of execution on the top-line basis but we have some challenges in margins which we will discuss during the Q&A session. For the full year we have achieved core EBITDA margin of around 11%, although last quarter was less than 9%. In JMC, as indicated earlier, we have grown at 50% on a full-year basis and 44% on the previous quarter. There shall be a big pressure on JMC also in terms of margins given the current volatility and all those issues. But we have still been able to be in the range of 7% - 7.5% which we personally believe is good margin.

In our Shubham Logistics, which is a second subsidiary we have, increased our utilization levels and our revenue has grown by 50% on year-on-year basis with EBITDA in the range of 13% - 14%.

From order book perspective we have a record order book of Rs 11,600 crores on a consolidated basis, out of which Kalpataru has Rs 6,100 crores and JMC has Rs 5,500 crores. These orders exclude orders that we have favorably placed. In Q4 of the previous year we have won orders closer to Rs 2,000 crores in Kalpataru and closer to Rs 800 crores in JMC. It's been a very good quarter in terms of new orders and it's been a right mix of domestic as well as international orders.

During the last quarter we also achieved commencement of our first transmission BOOT project. I think this is a first one state transmission BOOT project in the country. It got commenced in March and from the current year you will see that revenue coming up into our books. On the other BOOT projects we are on schedule as far as the work is concerned we

achieved financial closure for three of them and we are in the process of achieving it for the last one.

On our new plant at Raipur, which we had planned to commence sometime in June-July as per earlier indications there have been some delay and we expect that the plant would be commenced this September-October. We have also mailed a detailed presentation in terms of some of the numbers to a lot of analysts and in case you have any specific questions, those also we could go through that. With this, I leave the floor open for Q&A.

**Moderator** Thank you so much sir. We will now begin with the question-and-answer session. We have the first question from the line of Renu Baid from B&K Securities. Please go ahead.

**Renu Baid** Good set of numbers from JMC and overall Kalpataru. Sir, at the standalone level though we have seen definitely sequential improvement on the execution side, but margins front were disappointing. So what would be your comments on that and does it include anything specific on the FOREX loss side?

**Manish Mohnot** I think, yes, margins are lower than what we had expected by closer to 1%-1.5%. Our projections are in the range of 10% for Q4. Two major reasons for this. One, the steel price movement in Q4 and it's gone up in Q4; steel has gone up by Rs.5000-Rs.6000 whereas the index through which we get compensated the price variable IEEMA Index that has not moved up at the same pace. We expect that to move up maybe this quarter. So there is a one major hit coming out of that. It has been a sharp movement in steel price over the last one quarter.

**Renu Baid** Is that because of the timing difference for the price variable projects or on the fixed price projects which have taken a hit?

**Manish Mohnot** It's a combination of both. It's a combination of some hit on a fixed price projects plus the timing difference on variable price projects, because that's been a huge hit, that's a hit on a normalized basis of closer to 15 to 16 crores as compared to our budgets. And the second hit has been obviously FOREX, there has been 8 crores impact which has come in our books in Q4. This is primarily on account of raw materials for which we have placed orders and for which we still need to make the payments. The same has got revalued and to that extent there is 8 crores hit t. So if you really see the two big areas which has had impact on basically, steel price as well as the FOREX. The other areas, but I think these two are being the key reasons for our profits being at 8.8% versus 10% levels.

**Renu Baid** And sir, if one excludes this impact one-time that we have seen volatility on the steel price front, then is it likely that on a full-year basis we should be able to sustain the 10 to 11% kind of margins?

- Manish Mohnot** I think we are projecting that only. While I earlier used to say 11% range, now I'm saying 10% range, so more in the range of 10% to 10.5% is definitely something which we would be able to achieve in the next year.
- Renu Baid** And this should not be impacted by the change in order book mix that we have seen as more and more export projects that we have booked through Congo and other large projects. So will that change in the mix impact the profitability profile as well or it should largely be in the same range? Because bought outs could increase in terms of the execution mix.
- Manish Mohnot** The change because some of the large projects which we have got recently will not happen in the current year because a lot of execution of this would start only by the Q4 not even second half, the Congo project which I specifically said. So the positive impact of some of these projects would only come in next year.
- Renu Baid** And approximately 60% of the order book should be with price variable clauses and how will the mix be?
- Manish Mohnot** Realistically, more than 70% of the order book, we don't have any risk of price variation on Kalpataru; on JMC it will be better.
- Renu Baid** And sir, if you look at the tax rates in the current quarter, they are very much skewed at 28% though on a full-year level they were 26% levels. So was it specifically because of the revenue mix in the current quarter or an impact from the full-year numbers being adjusted?
- Manish Mohnot** It was primarily because of revenue mix for the current quarter with a minimal impact on the first nine months provision, it was primarily because of the revenue mix in the quarter.
- Renu Baid** And sir, how do you see the pipeline of our Transmission Line projects especially on a similar state BOOT projects coming up in the current financial year?
- Manish Mohnot** You had two questions. One was on Transmission and second was BOT. Let me first quickly answer the first one. On the Transmission side, I think, the competition continues to be intense as far as the domestic market is concerned. We have PGCIL plans, orders of Rs 20,000 crores, out of which Transmission should be in the range of Rs 10,000 to Rs 12,000 crores. We are not seeing much activity say for a few SEBs, but again there is a lot of competition. On the private side, while there have been a few BOT projects which have got awarded in the Q3 of previous year and there are still 3-4 large ones which have yet to be awarded. But I do not see much activity happening there. We have seen some traction and now it's not going in the same pace as it was in Q3 and Q4. So on the domestic side, there is definitely competition; there is PGCIL & SEBs which market share is available. You will definitely see some pressure on the domestic side.

- Renu Baid** On the domestic side, do you see ordering to slightly flatten out in the current year because given the state of many generation projects for the last 2 to 2.5 years which have been delayed, do you see that impact coming for transmission line ordering also?
- Manish Mohnot** Power Grid has stated its budget to be at the same line as what it had indicated six months ago. From that perspective I do not see impact coming in directly.
- Renu Baid** But nothing from the State or the private customers especially?
- Manish Mohnot** SEBs, yes. That's what I said, SEBs the traction has reduced. We need to just wait and watch to see when the traction improves again. It's not as positive as it was 18 or 24 months ago.
- Renu Baid** So, probably, that is the reason why we see increased focus on the export market to offset this kind of sluggishness?
- Manish Mohnot** It's always a mix which we look at. Today, if you look at the Kalpataru order book, out of Transmission line 50% is domestic and 50% is international. At one point of time it used to be 25%, then it went to 40%, today it is 50%.
- Moderator** We have the next question from the line of Sandeep Tulsian from JM Financial. Please go ahead.
- Sandeep Tulsian** Sir, firstly I would like to know in JMC Projects, if we basically look at the difference of the consol and standalone numbers, there is a loss of 6.8 crores, which was 4.5 crores last financial year i.e. FY '11. Sir, if you could highlight which entities pertain to maximum portion of these losses?
- Manish Mohnot** Sandeep, I would just rephrase your question, there's a difference, it's not as much about saying it's a loss. The difference is primarily because one of our road BOT projects we are doing our own EPC. And we have taken a conservative approach where on our own BOT projects if we do EPC, we do not recognize the profit in our books on consolidation. So that number of 7 crores basically goes out because of consolidation impact where for our EPC contract which we are doing for our own BOT project we do not recognize as a profit
- Sandeep Tulsian** So basically, once you complete the entire project, then there would be a one-time profit booking of the same?
- Manish Mohnot** No. on consolidation that would be available at SPV level. But then there wouldn't be profit coming in as far as EPC contract is concerned. That's accounting standard requirement also. On consolidation if you are doing your own BOT as well as EPC, then our portion of profit needs to be excluded. That's accounting standard requirement also and that's what we have been following in consultation with our auditors. And being conservative is what we like to be always.

**Sandeep Tulsian** And sir, secondly, I would like to know of the order book of JMC, what proportion of projects are through our internal projects for BOT and how much would be for external customers?

**Manish Mohnot** Out of the total projects the order book of Rs 5,500 crores, our own projects would be closer to Rs 1,000 crores, slightly less than 1,000, but I'm saying in the range of 1,000 crores. But out of the 1,000 crores again for one of the BOT we have an external partner. So, it would be closer to 700-800 crores, not more than that.

**Sandeep Tulsian** So 50% share of yours in that particular JMC? And sir, last I would like to know the proportion of international orders in order book is constantly increasing. So, what would be your margin guidance over the next 1.5 to 2 years where you have visibility of execution of these revenues? And secondly, apart from Congo and few other African regions which we have targeted, do you see significant pickup in Transmission activity in some maiden geography?

**Manish Mohnot** Sandeep, as per margin guidance is concerned on the current order book, we are looking at operating margins more in the range of 10% to 10.5%, which we have indicated earlier. As far as geographies are concerned, yes, we will continue to grow our geographical expansion. This year we have been successful in SAARC country and we have favorably placed in one more new country which we expect the order to come in the next two weeks. We're looking at CIS countries; we continue to be looking at Africa as well as the Middle East. Besides that, we have got two large orders coming out of USA & Canada in the previous year and Australia where we have always been supplying for the last over 5 to 6 years. So expansion wise, I think, the major focus would be CIS countries.

**Moderator** Thank you. We have the next question from the line of Pranav Gokhale from Religare Assets. Please go ahead.

**Pranav Gokhale** Sir, I have three sets of questions. The first one is on Kalpataru. On Kalpataru, as you see this current margins are lower than the 10% guidance which we are looking forward to. And you see the contribution of the other segments, apart from Transmission would increase going ahead. So what makes you confident of this 10%-odd margin for Kalpataru as a whole?

**Manish Mohnot** A very valid question. The first thing which I need to clarify that the other sectors which you have seen, I have not projected that they are going to go ahead significantly. Today, also look at our revenue mix, 90% of it comes from our core sector. And order book is also like that. More than 90% of our order book is from Transmission line today and less than 10% is from the other sector which includes pipelines, railways as well as distribution. So the order book in terms of execution mix is not changing. So that's the first question. Second, given the cyclical nature of our business when you look at quarterly numbers it does not give a right picture because the impact which happened in any quarter which is beyond our control. So, on a consol basis for the year we have still kept at more than 10% and I think it is easily achievable

because we have calculated our order book what are the margins which we have bid for, except for some extraordinary circumstances, so if dollar-rupee goes to 60 obviously I don't have an answer to it and I'm sure not many of us have an answer to it.

**Pranav Gokhale** The second question is on JMC Projects. On JMC Projects basically could you just help us in terms of understanding how much of the order book is with a price variation clause and how much is fixed out, there is no pass-through as such?

**Manish Mohnot** On JMC closer to 65% of our order book we do not have any price variation risk, closer to 30 to 35% of our order book would have a price variation risk.

**Pranav Gokhale** This full year as such which I'm looking at JMC the margin is generally lower than 7-7.5% which JMC is already delivering and you had guided for such margins going down, so do you expect this trend to continue going ahead in FY13 or 14 for JMC?

**Manish Mohnot** In terms of margin, I think we would be in the same range of 7 to 7.5% because the current competition in the entire EPC contracting space, the volatility in cement, diesel and all of that, it has a big impact on our margins. So personally, our internal calculations are that we would continue to be in the range of same 7-7.5% for the next year, but yes, you will see a top line growth coming in the next year also given the decent order book which JMC has. So on an absolute basis the number should improve.

**Pranav Gokhale** Last set of question is on Shubham Logistics, could you help me in terms of what will be the CAPEX in the current year for Shubham and going ahead what will be the CAPEX?

**Manish Mohnot** The current year expected CAPEX for Shubham should be more in the region of Rs 70 to 80 crores.

**Pranav Gokhale** And what was CAPEX incurred in the current financial FY12?

**Manish Mohnot** FY12 CAPEX was primarily around in the range of Rs 36 to 40 crores on buying land for the newer locations.

**Pranav Gokhale** And what could be the numbers in terms of sales, EBITDA, PAT for FY12 for Shubham?

**Manish Mohnot** FY12 for Shubham the numbers, the top line is Rs 204 crores, EBITDA Rs 26 crores, PBT Rs 4.7 crores.

**Pranav Gokhale** And what would be the debt number on Shubham Logistics?

**Manish Mohnot** In the area of 170 crores.

**Pranav Gokhale** So this number was close to 100 crores last year?

- Manish Mohnot** Yes it was close to 100 crores.
- Moderator** Thank you. We have the next question from the line of Sanjeev Panda from Sharekhan, please go ahead.
- Sanjeev Panda** As you say that margin was hit because of the raw material cost and the time difference between the index and actual price movement, how do you see this going ahead? Will we be on the higher side of the range or we will be able to get back to our old level of margin because of the index essentially get corrected?
- Manish Mohnot** The competitive pressure right now is not helping us to get orders with very high margins or margins what we had projected or achieved earlier. So there are two factors; one is the competitive pressure which is not helping us to get project with high margin, second is volatility and commodity prices. So given the competitive pressure and looking at this indication I don't think we will be able to be in the range of 11% plus, at least for the next year i.e. FY 13-14 we will have to wait and watch. But definitely in the range of 10 to 10.5% we should be able to achieve.
- Sanjeev Panda** Also we saw that interest cost there is a decline sequentially. So is there any adjustment that has gone into it or if you can just throw some light on it?
- Manish Mohnot** If you look at sequential number it would just be more out of FOREX related stuff, it has got nothing else.
- Sanjeev Panda** The FOREX quantum is?
- Manish Mohnot** FOREX quantum on this one is closer to 4 crores.
- Sanjeev Panda** Still we have a gap of, so is it because of any differential interest or it is purely the FOREX difference?
- Manish Mohnot** There are two impact, one, the debt levels have reduced significantly. So if you look at December our debt levels were more in the range of 700 crores and this time March we are in the range of 450 crores. So there will be one reduction in debt significantly which typically happens in Q4 because a lot of our clients like to pay only in Q4. It has been trend for the last 10 years.
- Sanjeev Panda** If you can just guide us for future revenue and CAPEX?
- Manish Mohnot** Our revenue plan for the next year on a consol basis is 20% plus, on a standalone basis more in the range of 15%, EBITDA for the standalone entity would be in excess of 10%, more in the range of 10 to 10.5% and consol should be more in the range of 9 to 9.5%. As far as CAPEX is concerned, our CAPEX for Kalpataru for next year's plan more in the range of Rs 70 to 75



crores, out of which significant amount would be on the Raipur plant and the JMC is more in the range of Rs 50 crores.

- Sanjeev Panda** This 70-75 will be primarily Raipur and will there be something on the Shubham part also?
- Manish Mohnot** Shubham would be separate figures.
- Sanjeev Panda** Rs 50 crore would be in JMC?
- Manish Mohnot** Yeah.
- Sanjeev Panda** And Rs50 crore in Shubham?
- Manish Mohnot** Yeah, could be more also
- Sanjeev Panda** Anything else apart from this, like any of the BOT and whatever we have going on, if you can just put some light?
- Manish Mohnot** On the BOT projects what we have won, we have total equity contribution more in the range of 450 crores, out of which we have already put in around 200 crores, current year closer to 100 crores would more out of internal accruals and over the next two years we will need the balance of 150 crores.
- Moderator** Thank you. We have the next question is from the line of Kirti Dalvi from Enam Asset Management, please go ahead.
- Kirti Dalvi** Good morning sir. Five-odd questions from my side. You have elaborately given guidance for your standalone and consol entity, but it would be better if you could individually give us segment guidance in terms of growth and margins, in terms of Transmission, Infrastructure and the Construction division.
- Manish Mohnot** Kirti, you might have to get these details maybe later on I can give you individual guidance for each of the three companies' level whereas for the each SBU level maybe we will have to meet later on and collect the detail. So individual company that you have got guidance for the next year, right?
- Kirti Dalvi** Yeah, then second question you did give consol CAPEX of almost 200-odd crores, am I right on that?
- Manish Mohnot** Yeah, you are right on that.
- Kirti Dalvi** Apart from this there will be investment which will be go into our BOT projects in terms of transmission as well as in terms of JMC?

**Manish Mohnot** This is for the investment on the current project unless we win further projects.

**Kirti Dalvi** 100 odd crores would be that investment?

**Manish Mohnot** That's what I indicated in the earlier question.

**Kirti Dalvi** So, that is the only quantum which is required at least for the current year?

**Manish Mohnot** Yeah, you are right.

**Kirti Dalvi** So, in terms of currently, what is the status of our equity positions in individual projects, in JMC as well as in Transmission?

**Manish Mohnot** On the BOT projects, right?

**Kirti Dalvi** Yeah.

**Manish Mohnot** So if you look at our Transmission BOT projects, we are 51% and Techno is 49%, on the road-BOOT project the one Rohtak-Bawal we are 51% and SREI is 49% and on the other three projects, we are 100%.

**Kirti Dalvi** All put together we have only 100 crores contribution this year?

**Manish Mohnot** Yes, our total commitment of equity on the road BOOT project is 450 crores in that range. We've already contributed closer to 200 crores, next year we will need closer to 100 crores, current year '12-13.

**Kirti Dalvi** And a little bit clarification on the balance sheet numbers, on a like-to-like basis last year our consol debt was something like 800-odd crores. So on that basis this year's consol debt has gone up to almost 1000-odd crores, am I right?

**Manish Mohnot** I think it has gone up more than that.

**Kirti Dalvi** 1150-odd crores, if I'm not wrong?

**Manish Mohnot** If you look at the debt, it has gone up more in the range of 1200 crores, 1271 crores to be precise number, gross not net because we have a huge cash....

**Kirti Dalvi** I am talking about gross.

**Manish Mohnot** Gross is more in the range of 1250 crores plus.

**Kirti Dalvi** And our inventories have gone up if I see our consol level, any specific reasons?

- Manish Mohnot** We have won two fixed price contracts in the month of February, one in US and one in Canada, January-February for which the entire supply has to be done in the next six months so we took a conscious call of buying the entire steel for these two projects and which was at our plant in the month of March.
- Kirti Dalvi** And the last question, again on our press release if we see segment level there is this other un-allocable income net of expenditure which is something like 12 or 13-odd crores versus 21 crores. So if you could elaborate, is there any losses we made in any of our JVs or are there any one-time cost which have booked in this particular head?
- Manish Mohnot** To answer your question straightaway, there were no losses we made in the JV or there is no one-off. Biggest difference is the QIP income for which we had full funds available last year for around 8-9 months as compared to only limited funds available in the current year and which is visible in the balance sheet as well as all our press releases.
- Kirti Dalvi** So there is nothing one-off?
- Manish Mohnot** So there is no one-off, there is no loss on any JV, there is nothing. We don't have JVs which would have any loss.
- Kirti Dalvi** In terms of Shubham what is the guidance for next year?
- Manish Mohnot** Next year we expect top-line to grow by closer to 20% to 25% and PAT we expect to double from here next year.
- Moderator** Thank you. We have the next question from the line of Chinmay Gandre from KR Choksey, please go ahead.
- Chinmay Gandre** Regarding the interest cost in the current quarter, if I compare it sequentially especially in the March quarter also, but March quarter there was a 12 crores FOREX loss, so this quarter there was a 4 crores gain, last time it was 32 and now it is like 22-odd
- Manish Mohnot** Last quarter was 12 crores loss which was there, this quarter it is 4 crores gain.
- Moderator** Thank you. We have the next question from line of Deepak Rohara from Quest Investment Advisors. Please go-ahead.
- Deepak Rohara** I have some specific questions on JMC Projects. Could you just help me get a sense of what has been the order inflow during the year? My calculations shows approximately 3400 crores, am I correct on that?
- Management 27:22** You are perfectly right on that; 3456 to be precise.

- Deepak Rohara** How much of it would be related to your road BOT that would have come BOOT projects on this?
- Management 27:31** In the current year if you ask me how much out of it, it would be more in the range of 500 crores.
- Deepak Rohara** That means the fourth project for which you have not achieved the financial closure is still not reflecting in the order book?
- Management** It is reflected in the order book.
- Deepak Rohara** Because that should have been closer to 1000 crores or have I got the number wrong in the fourth project that is the MP, UP, Reva MP?
- Management 27:57** I have reduced whatever we have already executed during the year. So you are right in terms of incremental it would-be around 800, but in terms of totality since we've already delivered a lot of Rohtak-Bawal, the net impact would be 500.
- Deepak Rohara** That's one part of it. The second is I just needed some help in terms of understanding at a macro level in terms of ownership. Now in some of your projects you own 100% equity as of today, the road BOT projects. Is there a restriction in terms of as to how much dilution is allowed by NHAI or the government till the commercial date has been achieved or is there no such restriction there?
- Management 28:44** There are some restrictions but you can still dilute. They just want to ensure that whoever has bid, it is to the majority partner till COD is achieved.
- Deepak Rohara** Which means 51% has to be with you?
- Management** Yeah till COD is achieved.
- Deepak Rohara** And post COD what happens? Are you allowed to...?
- Management** It is different for different concessions, state is different, NHAI is different. We could even go down to 26% within the first two years of COD and we could exit fully after two years of COD.
- Deepak Rohara** The reason I asked is because there has been some talk about people wanting to exit from certain projects. So I just wanted to get a sense on how likely those kind of things are happening at that macro, not necessarily for JMC. One other thing is in terms of the JMC itself again. You said about 30 to 35% of your order book has a price variation risk. Is that largely on the road BOOT projects or is that also on your construction that is factory building projects?

**Manish Mohnot** It is primarily on the building and factory side, but it is also on road BOOT projects. If you ask me it is a equal mix, building and factory would be higher, road BOOT would be slightly lower. Because on the road BOOT projects what we have done we have also done back-to-back contracts on some of our projects with EPC contractors. So to that extent our price variation is capped.

**Moderator** Thank you. We have the next question from the line of Jigar Shah from KimEng Securities, please go ahead.

**Jigar Shah** I have a couple of points. You rightly mentioned that there are too many variables at the moment in terms of risk and I want to precisely understand how are you managing this particular risk? Growth is probably less important at this stage when you have to struggle so much for the margins. So that is one. The different variables how you are managing. And the second point is that are you facing trouble in execution of any of these specific projects whether in Kalpataru or in JMC?

**Manish Mohnot** Let me answer the second one first, from environment perspective the last two years have been a lot more difficult as compared to the history in terms of ROW, environment, forest clearance all of that. So a lot of our projects get stuck but then they also get started depending upon the clients status, but the last two years, yes, the problem faced, the magnitude have increased significantly because of issues related to ROW, environment and forest. To answer the first part in terms of how do you manage the other variables, there are three critical components in our business; one is your capability to execute; second is your capability to manage your volatility; and third is to get the right kind of orders. These are the three important variables today besides interest which is common for a lot of people. So, we actually take care on the last one the most to get the right mix of orders where we have right margins, where we have minimal risk or when we have right mix of risk. The moment you take care of that to a certain extent then it depends on your execution capability. And by the grace of God in the last whatever number of years we have not failed on execution front. And today, a lot of clients give us the top rating as compared to all the other contractors in the country. So that's the second part. The third in terms of volatility, yes, we can manage some by hedging but there is some which is beyond us, like steel, for example, like diesel prices, like cement prices which was impossible for any of us to get that cement or steel prices would go up by 30% in let us say five months but that's a reality. So things like this are beyond us except that when you bid now for future projects we always inbuilt this kind of cost also, the times to get outpriced but then you have to take a right make call in terms of order book, profitability and the mix of all of it.

**Jigar Shah** One last question is the different BOT projects which you have now started will form what kind of our revenue as well as EBITDA in FY13 and FY14?

- Manish Mohnot** FY13 primarily if you're asking my transmission BOT which is close is what I will get revenue on which is closer to Rs 54 crores per annum, and we should be able to easily get EBITDA in the range of 95% on that, easily if not so any more than that on this Transmission BOT. The road BOT projects for two of them, the revenue would start in '13-14, but we're still doing a traffic study but there could be improvement in revenue closer to 150 to 200 crores coming out of road BOT projects in '13-14, actually I'm talking on the final numbers.
- Moderator** Thank you. We have the next question from the line of Bharath Seth from Quest Investments, please go ahead.
- Bharath Seth** On this JMC side I have questions, how will you see now competition in BOT with NHAI, giving guidance that anyone who has bid and not achieved the financial closure for three projects, they cannot. So how this scenario is going to likely to help us or not?
- Manish Mohnot** This scenario has been there for the last couple of years and every time in the last two years whenever we sit on a bid we are always saying that hopefully some rational bid would come in, but to our surprise we still find 90% of bids being at very aggressive levels. There is always some competitor who comes in. So it's a mix of point of view in traffic, a point of view in interest rates and all of them. But the competition is not reduced even with this clause of saying that you need to achieve financial closure, you shouldn't have more than three in hand, but still competition continues to be what it is.
- Bharath Seth** How then do you plan to grow JMC going ahead unless we don't have BOT projects?
- Manish Mohnot** In our JMC order book if you look at it, BOT is less than 20%, 80% comes from non-BOT projects, and historically we always had BOT which was closer to zero. So I don't think there is going to be a big impact of not having the BOT project. As long as I can get the EPC contractors on BOT projects we are in a comfortable position.
- Bharath Seth** Is margin lower in those sides compared to our own BOT?
- Manish Mohnot** It depends on project-to-project, even on the time, duration of implementation, the traffic visibility all of that. So, on some projects where we are planning to work on EPC contracts we might get better margins because the client wants early delivery. On some projects where the client has a different view in traffic we might have lower margins, it is very different on project wise. But on an overall basis, yes, there is intense competition on EPC on roads also.
- Bharath Seth** How in the slowdown of economy, industrial and factory building orders book we are expecting pipeline?
- Management** Whatever we hear and we see the slowdown but our order book on buildings and factories have actually increased over the last six months. Projects like hospitality, projects like hotels, projects like expansion of plants, projects like educational institutes, projects like warehousing

we are seeing a lot of traction. We are seeing some reduced traction in some specific sectors but otherwise all the other building and factory sector we have seen good traction. So currently on traction we don't see a big reduction. Our order book has grown significantly in the last 2 quarters and with the current order book I don't think next two years we will have any problem in terms of delivery or in terms of achieving the projected top line growth.

**Bharath Seth**

In JMC on EBITDA side since last six months we have seen that there is a declining trend in the EBITDA and what next you feel that our FY '13-14 will be closing EBITDA of 7% plus?

**Manish Mohnot**

You are right, we have seen a declining trend because of the volatility in prices which is completely beyond our control and I have given an example earlier in the call of how cement prices have gone up 30% in last six months in certain geographies. So that volatility is obviously something which is very difficult for us to predict. On the projects which we have based on whatever we have bid and based on whatever the realistic cost when we have done a zero based costing in a phase we believe we should be in the range of 7%. But you are right to the sense that in case the volatility continues, in case there is a pressure on labor prices all of that this could come down. But we are trying our level best to ensure we will reach the range of 7% plus.

**Bharath Seth**

Last question, how much we have already funded equity portion from JMC or this BOOT project so far?

**Manish Mohnot**

Closer to 200 crores.

**Bharath Seth**

As of 31<sup>st</sup> March, correct?

**Manish Mohnot**

Yeah.

**Bharath Seth**

And this year you would contribute Rs 100 crores?

**Manish Mohnot**

Perfect.

**Moderator**

Thank you. We have the next question is from the line of Saurabh Arya from Bajaj Allianz Life Insurance, please go ahead.

**Saurabh Arya**

I have a couple of questions on Shubham Logistics. I want to know what kind of money we have put in till now in Shubham Logistics and what is our plan of action for next 3-4 years?

**Manish Mohnot**

In terms of our money we have put in as Kalpataru is closer to Rs 49 crores in terms of equity in Shubham, plus we have given them some unsecured loans, which is primarily for the inventory which should be more in the range of Rs 60 to 70 crores. In terms of expansion plans we are managing the capacity of closer to 6 lakhs tons now, we plan to double that in the next two years. Coming out of primarily Maharashtra and MP, we already got all the lands in

Madhya Pradesh and construction has begun. We plan to start our warehousing operations by October. In Maharashtra we are buying the land and by next year April to June we should find the Maharashtra locations also up and running.

**Saurabh Arya** Whatever CAPEX we are doing that is getting them from the Shubham books only, we are not infusing any money?

**Manish Mohnot** No, we are not, but we have been looking at strategic share stake holders for this company and we are in discussions with a few of them, and depending upon the right price in the right moment you might look at getting some strategic player.

**Saurabh Arya** In terms of mid-term to long-term what kind of margins this company can make? Would it always be in the range of 13 to 14% or we see certain improvement going ahead?

**Manish Mohnot** At EBITDA level I think you should see improvement coming in the current year itself because last year interest rates had peaked out and now it has reduced significantly given the infrastructure status which has been given to warehousing and logistics part. So at the EBITDA level you will see some margins improving because of overall improvement in productivity and at the PBT level improving because of reduced interest cost. You will see some difference coming in, that's why I projected that with a 25% growth on top-line we expect PAT to double next year.

**Saurabh Arya** And this run rate may continue for next 2-3 years?

**Manish Mohnot** For the next 2-3 years it's visible given the situation of the country today.

**Saurabh Arya** But what is the kind of run rate we have as of now in our warehouses?

**Manish Mohnot** We are at 100% plus utilization at maybe 95% of our locations.

**Saurabh Arya** So the 6 lakhs tons is completely utilization?

**Manish Mohnot** Yeah.

**Saurabh Arya** That's why we are expanding?

**Manish Mohnot** Yeah.

**Moderator** Thank you. We have the next question from the line of Sagar Shah from Anter Capital, please go ahead.



- Sagar Shah** I have a question related to JMC. First of all, if you can explain what CAPEX we have done in FY12? Is the CAPEX was in a substantial amount because of that loan amount has increased or what...?
- Manish Mohnot** We have done CAPEX closer to Rs 90 crores in the previous year in JMC and the plan for the next year is only Rs 50 crores.
- Sagar Shah** Borrowings substantially increased, so any specific reason behind that?
- Manish Mohnot** If you look at a consol basis the borrowings have increased primarily because of our road BOT projects. Out of the four projects two of them are having construction at advanced stage and where we have taken the debt on books and it is primarily because of that. In JMC, our borrowings are at a similar level as compared to previous year.
- Sagar Shah** Is it we have taken loan for Agra-Aligarh project that you're talking about?
- Manish Mohnot** We have taken for all the three projects where the construction has begun.
- Sagar Shah** What is the average cost of debt in JMC in case of?
- Manish Mohnot** More in the range of 10.5 to 11%
- Sagar Shah** One last question is, till Q3 FY12 the order book was around 5500 crores. Have you seen any order addition in Q4 FY12?
- Manish Mohnot** I think Q4 FY12 I had indicated this earlier also. Kalpataru has got additional orders closer to Rs 2000 crores, JMC closer to Rs 850 crores.
- Sagar Shah** So total for JMC till now it is Rs 5,500 crores?
- Manish Mohnot** Yeah. Excluding L1 orders.
- Moderator** Thank you. We have the next question from the line of Rohit Singh from IDBI Capital, please go ahead.
- Rohit Singh** A couple of questions from my side. One, just to understand if you can guide us on Shubham Logistics? Basically you were talking about refinancing of loans under NABARD scheme. So what is the update on that?
- Manish Mohnot** Loans for new warehouses should be made available as per government policy at a cheaper price and because of that our interest rate should be lower in the current year as compared to the previous year.

- Rohit Singh** So there is no clause of refinancing out there?
- Manish Mohnot** No.
- Rohit Singh** Second, if you can give me the breakup of order book for Kalpataru as well as JMC?
- Manish Mohnot** Kalpataru order book, if you look at it today, out of Rs 6,100 crores of the order book around 3000 crores is from overseas business, domestic is around 2400 crores and the balance is from pipeline, railways and distribution. JMC, the order book, 50% of it comes from Factories and Buildings, around 30 to 32% from Infrastructure in Roads and Power and Railways manage 15%.
- Moderator** Thank you. We have the next question from the line of Amish Bansuria from Nirmal Bang Securities. Please go ahead.
- Amish Bansuria** I have a question on JMC projects. The Rs 200 crores that we have already invested in our BOOT projects can you give us a breakup in terms of which project has been in terms of Agra-Aligarh, Rohtak-Bawal how much has been invested into this?
- Management** If you look at the Rohtak-Bawal we have invested closer to 80 crores, Agra-Aligarh is more in the range of 25 crores and Nagpur-Wainganga more in the range of 70 crores.
- Amish Bansuria** Nothing in Reva?
- Management** Nothing in Reva, small stuff.
- Moderator** Thank you. That was a last question. I would now like to hand the conference over to Ms. Bhoomika Nair from IDFC Securities Ltd. for closing comments. Please go-ahead.
- Bhoomika Nair** Thank you everybody for taking time out for the call especially the management for answering all the queries. Thank you very much sir.
- Manish Mohnot** Thank you very much, Bhoomika. Thanks again to all of you.
- Moderator** Thank you so much. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.