



## “Kalpataru Power and JMC Projects Q1 Financial Year 2015 Results Conference Call”

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**ANALYST:** **MS. BHOOMIKA NAIR – SENIOR  
VICE PRESIDENT – IDFC  
SECURITIES**

**MANAGEMENT:** **MR. RANJIT SINGH - MANAGING  
DIRECTOR – KALPATARU POWER**

**MR. KAMAL JAIN – CHIEF  
FINANCIAL OFFICER -  
KALPATARU POWER**

**MR. MANOJ TULSIAN – CHIEF  
FINANCIAL OFFICER – JMC  
PROJECTS**

**Moderator:** Ladies and gentlemen, good day and welcome to the Kalpataru Power and JMC Projects Q1 FY 2015 results conference call hosted by IDFC Securities Limited. As a reminder, all participant lines' will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities Limited. Thank you and over to you Ms. Nair!

**Bhoomika Nair:** Good morning everyone. Welcome to Kalpataru Power and JMC Projects post Q1 Earnings Call. The management is being represented by Mr. Ranjit Singh, Managing Director Kalpataru Power; Mr. Kamal Jain, CFO Kalpataru Power; Mr. Manoj Tulsian, CFO, JMC Project. I will now hand over the call to the management for their initial remarks post which we will open up the floor for Q&A. Over to you Sir!

**Ranjit Singh:** Thank you very much. Good morning everyone. We have declared Q1 financial year 2015 results of both KPTL and JMC and a copy of the results, press release and presentation have already been sent to you. Before proceeding for the Q&A session, I would like to take you through some of the key highlights of the results and some of the recent key developments which have taken place in our business. Our Q1 financial year 2015 performance has been satisfactory, as we have achieved top line as well as PAT growth of 20% over corresponding quarter of last year. The core EBITDA has also grown by 16% with margin remaining at about 10% despite continued headwinds in infra business. This is an improvement of 50 basis points over what we achieved in the entire financial year of 2013-2014. Order book levels are comfortable at Rs.5,750 Crores with clear visibility of 15 months at current turnover rate; however, order inflow has been weak in the last quarter primarily due to delay in bid opening across our key markets. Especially in the domestic market, especially tendering activity was postponed and slowed due to election code of conduct. ; hHowever, keeping in view our favorable position in many tenders and the bidsg in pipeline that we have as well as expected improvement in business sentiment and investment infrastructure sector especially in power, railways, and transmission sector, we expect the order flow should improve during rest of the year. On the portfolio front, T&D business share of international business continues to grow, in this quarter we have achieved almost equal share between domestic and international. as well as transmission distribution business is concerned. As far as order book is concerned, the international share is significantly higher at 70%; however, we expect this to correct to 60% as we see greater traction in domestic business going forward. As far as the EPC infrastructure business is concerned that contributes about 7% of the total top line. We have been following a strategy of consolidation as we have shared with you earlier in these two businesses. In infrastructure segment, we had short fall of both revenue and profit, in fact we made losses at EBIT level. We expect the pain to continue for another two quarters as we restructure and consolidate the business for future growth in these promising sectors. Our second TL BOOT project in Madhya Pradesh is progressing very well,

construction is in full swing, project is around 75% complete, we are targeting to complete the construction as per the schedule that is i.e. by end of this financial year. As far as JMC is concerned, the sales have declined at by 11% Y-o-Y. We faced challenges during the quarter due to labor un-availability. On margin front, as has been our strategy the quarter had shown improved margins, thanks to some of the claims settled with the clients in the last quarter. For the full year, we are still targeting to improve margins by 50 to 100 basis points with modest growth in top line in line with our strategic consideration for JMC after two, three years of hyper growth. Order inflow was over Rs.500 Crores as far as JMC is concerned in the last quarter mainly contributed by factories and building segment, which currently constitute to about 75% of the current order book. All our road BOOT project in JMC are progressing very well. Rohtak - Bawal project has received provisional COD from NHAI. Post that partial toll collection is underway for the past eight to nine months. Agra-Aligarh project has also received provisional COD and accordingly partial tolling has started recently. The third project that is i.e. Nagpur-Wainganga has also been completed now and we have recently applied for provisional COD. The last project is also progressing well with over 50% completion, which is expected to be completed by Q1 financial year 2016. Shree Shubham Logistics had sales decline of 7% with operating margins at 25%+ due to better realization from all the warehouses as well as some positive seasonal factor impact. Our current capacity stands at 1.7 million tonnes and is fully utilized. For the full year, we are targeting 15% to 20% top line growth in the business with operating margin of 14% to 15%. With this update, I would like to open the floor for Q&A session. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.

**Ranjit Shivram:** Good morning Sir. I just wanted to know this quarter the order intake was low, so how much of order intake are we expecting for the full year both in terms of domestic and order intake, if you can throw some clarity in that?

**Ranjit Singh:** On overall basis as far as KPTL is concerned, we expect the order intake to be in the region of Rs.4000 Crores to Rs.5000 Crores, However, it's very early right now to exactly predict this, but couple of key drivers which I would like to share with all of you. Number one as far as T&D segment is concerned, there are three or four drivers which are there. First is that in power sector, significant reforms are going to take place and new power capacity is going to come on stream or the power projects which are stuck up are likely to get debottlenecked that will require transmission line for evacuation that is one key driver that is there. The second thing if you recall there was a storm in Delhi over a month or two months back, subsequent to which there was a blackout in Delhi so that which brought to fore the fact that our transmission infrastructure still needs investment to make it more robust and less vulnerable to these kind of natural disasters. This which has been the discussed at the government level so we expect significant impetus to transmission line investments to take place going forward. The third is green corridor. PGCIL has already announced some of Green corridor projects., PGCIL has already

announced some of them. These are the projects to link renewable energy resources integrating it to the power grid. Already about Rs.3000 Crores worth of projects have reached financial closure with financing from KFW. that is going to be another impetus which is going to be there. So on overall basis, we expect that the business sentiment and the opportunities are going to grow, the pie is going to become bigger and we will have a larger share as far as domestic power is concerned.

**Ranjit Shivram:** Sir of this Rs 4000 to 4500 crores, how much will be roughly domestic, which we are expecting for order intake?

**Ranjit Singh:** That is very, very difficult for us to say right now. We got many projects in pipeline both in domestic as well as international. As I told you, in domestic market, a lot of projects as well as tendering got postponed or bid opening did not take place and those are happening now. some of the tendering also got postponed, So on overall basis you it can say be about 50:50 but that is a very, very raw estimate which is there.

**Ranjit Shivram:** In terms of our guidance for this year growth and margins?

**Ranjit Singh:** As far as growth is concerned, we continue to hold our earlier guidance that we have given in terms of 15%. As far as margin is concerned it is 10%, which has been long term EBITDA margin, which we will stick to right now.

**Ranjit Shivram:** In infrastructure, sequential EBITDA has improved a bit, so how do you see this trajectory, in fourth quarter at least will be break even in infra?

**Ranjit Singh:** We would like to share with you our overall strategy as far as of our infra portfolio is concerned. As far as our portfolio is concerned We have been following the two strategies, - number one increasing the share of international business in our total portfolio that we have already achieved and the second is that growing new businesses. For both those two new businesses of our infra EPC businesses, railway and pipeline, we expect the future in both these businesses to be extremely bright especially railways, where we see that it has already been recognized by the government that railway is going to play very, a very critical part role in the overall transport mix of the economy in the freight and passenger segment, so that is going to be one key driver which is going to be there. Second is the overhang of under investment of safety, quality, capacity of railway is concerned. So, large amount of investments will get planned in railways. One of the major bottlenecks was financing part, so and government has started working on that. Third is the EPC segment which again would be a large potential. Fourth is metro - already in nine cities metro work is going on, that puts a large amount of potential business for us. High speed train, both freight as well as passenger trains that is going to be another segment which is likely to give impetus to growth. So overall we are very, very confident in terms of future growth as far of these segments are concerned. As far as our current focus is there, Only at present we are focused significantly on consolidation. So we are very, going for new orders,

very selectively, bidding with very good margins because some of the orders that we had in the segment were at very, very low margin, most of those orders are already getting over.

**Ranjit Shivram:** How much will be pending order book Sir in that kind of slow moving?

**Ranjit Singh:** Pending order book will be around Rs.120 Crores.

**Moderator:** Thank you. The next question is from the line of Renu Baid from B&K Securities. Please go ahead.

**Renu Baid:** Good morning Sir, couple of questions. First is if you look in terms of our entire strategy for reducing the capital employed, how is the status in terms of our getting the receipts on Shree Shubham Logistics because you have seen debt also increasing on a strong note in the current quarter, so how are things looking in terms of monetization coming in from Shubham Logistics and real estate and reduction in the capital employed?

**Kamal Jain:** If you remember we have said that the second phase, which we have made operational in this quarter with 2 lakh tonne capacity, for that we have taken the debt and because of that the debt has increased.

**Renu Baid:** What is the debt specifically for SSL?

**Kamal Jain:** As on today, the total debt is Rs.358 Crores including the short-term loan of Rs.69 Crores and short term maturity for long term loan of Rs 19 Cr which is around Rs.358 Crores, which has just increased by Rs.40 Crores only as compared to March.

**Renu Baid:** But this is coming in our standalone books, KPTL standalone books?

**Kamal Jain:** It is in the books of Shree Shubham Logistics.

**Renu Baid:** Which is true because even if we look at the standalone numbers for Kalpataru there also the loan funds does not have increased?

**Kamal Jain:** Nothing has increased, hardly Rs 10 to 15 Crores plus or minus. To that extent in either case our bank balance has increased.

**Renu Baid:** The actual fund flows, what would be the third phase of growth for Shubham Logistics?

**Kamal Jain:** Third phase, we are also expecting to add around 2 lakh tonnes capacity, but it may not happen in this year.

**Renu Baid:** Any incremental funding or equity contribution?

- Kamal Jain:** Incremental funding can happen during this year Rs.35 to Rs.40 Crores for completing the existing plan.
- Renu Baid:** Sir within this, apart from this any positive development in the real estate monetization side?
- Kamal Jain:** There is no major development as on today, but Indore project is likely to be launched in this quarter and/or definitely in the third quarter beginning. We have got all the approvals in place and the project is likely to be launched.
- Renu Baid:** My last question is on the infra side you mentioned that now the newer orders are coming on very healthy margins, so incrementally of almost Rs.500, Rs.550 Crores of order book which today infra is sitting on, one can expect that these margins would be double digit margins or higher single digit margins of 8% to 9% levels?
- Ranjit Singh:** There are two things, out of Rs.550 Crores order book that we are talking about, about Rs.150 Crores as Mr. Jain pointed out earlier would be the orders that are lower margins that is number one. Number two is new orders that we are getting are at reasonable margins, not very, very high margins because it is a competitive industry but we have pointed out earlier, also in pipeline we are seeing a significant amount of rationality which is coming back. Second thing is Also we have got certain fixed asset investments that are large, so we are flexible in terms of our bid so that we can maintain the utilization of the fixed assets. That is another key driver of key factor which is going to impact of the profitability of these businesses.
- Renu Baid:** Once these loss making orders are completed in the next two to three quarters by the end of the year margins should be at least mid-single digit level?
- Ranjit Singh:** It could stay that much.
- Renu Baid:** Okay and any Forex impact in the current quarter?
- Kamal Jain:** No major impact.
- Renu Baid:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Kishan Gupta from CD Equisearch Private Limited. Please go ahead.
- Kishan Gupta:** Good morning Sir. I just wanted to know how are the order flows from the international business this time around?

- Ranjit Singh:** International business, we have large amount is under pipeline, but as far as order flow in this quarter is concerned as we pointed out it is only one order of about Rs.20 Crores out of Rs.300 Crores, is from international that too is a tower supply order, but it is just coincident, so we do not expect any headwinds in this area going forward.
- Kishan Gupta:** So basically any particular reason why the orders were put on hold this time?
- Ranjit Singh:** Nothing specific as such. We are favorably placed in about Rs.1000 Crores worth of orders plus we have won about Rs.300 Crores, everything put together we are talking about Rs.5800 Crores of total order book position which is there, 70% of these orders are from international.
- Kishan Gupta:** How would you explain the sharp jump in other expenses this time around?
- Kamal Jain:** Other expenses increase is mainly due to the supplies of overseas project where the prices are including DDP long distance projects have been executed during the quarter, so there has been higher Freight and forwarding expenses plus there has been higher agency commission due to the overseas project.
- Kishan Gupta:** Is it that the share of international business revenue is higher this time from the same period last year?
- Ranjit Singh:** This time it has been almost 51% revenue from the international and 49% from the domestic.
- Kishan Gupta:** What was the share last year?
- Ranjit Singh:** It was 40:60 earlier.
- Kishan Gupta:** Okay, thank you so much.
- Moderator:** Thank you. The next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.
- Sanjeev Panda:** Good morning Sir. JMC project, I will start up with. We see operating profit margin improving, but there is decline in depreciation, could you please throw some light on that?
- Manoj Tulsian:** Good morning. On the depreciation actually as per the new Company's Act 2013, there is a transition provision and as per the schedule II, the rates have to be realigned with respect to the balance useful life of the asset. So, if you see that there is a note also in the results which we have declared that during the quarter because of following with this new Company's Act, there is an improvement in depreciation to the extent of Rs.4 Crores.
- Sanjeev Panda:** Basically I wanted to understand the infra, EPC business where the margins is a major issue rather than growth, as you said that there is a part of your strategy you want to grow the new businesses.

However, the margin pressure is something that you are making losses in that and that is a big concern for sometimes. Actually in the last one year or more probably we have been saying that in the next two, three quarters things will improve, but for quite a long time it has been in the negative side?

**Ranjit Singh:**

In our overall portfolio if we look at it, we are talking about 7% to 10% of our total portfolio that is one perspective that we should keep in mind. On a standalone basis, this looks like very, very poor performance and profitability, but overall impact on our total portfolio is minimal, just a clarification. Second is, these are some of the projects we have taken as a entry strategy especially in case of railways which we have taken two years back, which we have clarified also. Unfortunately, some of these projects are in the eastern part of India, because most of the projects are coming, most of the railway investment was in that region, because the railway ministry was significantly focused on development of the eastern part. Unfortunately, the project implementation environment in the east has not been great, so that has been one headwind that we have been facing. Number two, these projects were taken as an entry strategy, so they were at low margin, almost break-even for a couple of percentage margins it was taken. Third is, there has been some unprecedented increase in cost - some of the aggregates, etc, so that has had an impact. Fourth is organization has gone through organizational learning curve which is a standard thing, which all of us go through, but because we knew it and that is why we had kept our exposure to the segments limited. Because we wanted to learn, but at the same time did not want to expose ourselves too much unnecessary very, very large. All that strategy is paying out at organization level as well as operationally now, most of the projects are getting over and only one project in railway is the major project from past which will be is leftover. Now, we have started looking at waiting for new projects and that is they are being bid at reasonable margin.

**Sanjeev Panda:**

All projects as you said of low margin projects about Rs.150 Crores kind of range, what is the kind of execution period for that?

**Ranjit Singh:**

About Rs.150 Crores is the total in railways what is leftover, so that will take till middle of next year to get completed.

**Moderator:**

Thank you. The next question is from the line of Fatema Pacha from ICICI Prudential Life Insurance. Please go ahead.

**Fatema Pacha:**

Hello Sir, great set of numbers. Sir, I just wanted to understand the infra segment, do you think this could be a big revenue growth driver for you, are we seeing in that way?

**Ranjit Singh:**

You are right Fatima, that is the way we are looking at it especially both in railways and pipeline front, we are very, very optimistic in terms of future growth. Railways as we pointed out the key drivers which are there. The current government is focusing on railways and the focus is to reinstate



railway as one of the key drivers of the economy and the overall percentage of railways in the total transportation mix in India is definitely to go up in both in passenger as well as in freight segment.

**Fatema Pacha:** Considering that this segment is primarily domestic and Q2 obviously we have monsoon issues, any particular reason why execution was not extremely strong in the segment? Why are we not accelerating the execution because initially we said that we expected by first half this is to get over with, now we are saying another two quarters?

**Ranjit Singh:** As I pointed out most of the projects are almost over, we are working on about six projects, out of which five projects are nearing completion or almost complete.

**Fatema Pacha:** No, I am just asking is there any, we have done an excellent job of execution on the T&D side, but for some reason the infrastructure segment, the execution is not accelerating like, there is Rs.550 Crores kind of backlog, we could have done much higher sales, but is it some conscious reason why because of receivables that we are not doing that execution or we do not have write off way or generally the timelines are such of delivery?

**Ranjit Singh:** As far as pipeline is concerned, there are some schedule which is there, so depending on the schedule and milestone you will see significant ramping up taking place in Q3, Q4, but Q2 again because of the rainy season and monsoons. As far as railway is concerned, most of the projects are nearing completion, so we do not have too much of work there. One project which is there, the schedule of project is such that will carry onto middle of next year. So for Railways we are bidding very consciously. Till we have executed and finished up all the projects we do not want to bid very, very aggressively because we want to finish all the existing projects first. So, out of six projects, five projects are almost over. One major project which is leftover that will continue to middle of next year.

**Fatema Pacha:** Are we expecting that by Q4 of this year, we could be at least on breakeven in this segment?

**Ranjit Singh:** Yeah.

**Fatema Pacha:** Fair enough. With the existing backlog, is it fair to say that this year nine months may not be as good on execution or maybe the delivery schedule for the existing backlog such that growth for this year will yet be quite good for the remaining part of the nine months?

**Ranjit Singh:** You are talking about infra segment?

**Fatema Pacha:** T&D.

**Ranjit Singh:** T&D, we are sticking to about 15% growth as far as KPTL is concerned on overall basis, we are maintaining that.

- Fatema Pacha:** Thank you and best of luck.
- Moderator:** Thank you. The next question is from the line of Pooja Swami from Span Capital. Please go ahead.
- Sudhakar:** This is Sudhakar here, good morning. I had couple of questions. My first question is on JMC, you seem to have very large order book of around Rs.5000 Crores, but execution seems to be low, this quarter we saw revenue degrowth of 11%, so how would you explain that?
- Manoj Tulsian:** If you really see the order book which is at Rs.5000 Crores delivered in the next two-and-a-half years. So, from the order book perspective which we have right now we do not see any challenges. But from the growth perspective, we definitely see a challenge because Q1 there was big issue on labor availability across the country and our execution suffered on that account. Now Q2 again, because of the seasonality we will not be able to really see a great growth, but to answer your question, we are not seeing challenge in terms of executing the orders, we are seeing challenge in terms of growth.
- Sudhakar:** Overall what kind of revenue growth do you see in your JMC business this year?
- Manoj Tulsian:** This year we had already mentioned in the beginning also that we would be looking at a growth of around 5% to 10%, but I would say that anything between 0 and 5 we could looking at
- Sudhakar:** You mentioned that you expect at least 1% to 2% improvement in margin, is it safe to assume that EBITDA should be around 7%-7.5% this year or lower than that?
- Manoj Tulsian:** I would be very happy if I said that but I think the margin improvement should be in the range of 50 basis points to 100 basis points.
- Sudhakar:** 50 to 100.
- Ranjit Singh:** Just to add to what Manoj was saying. Two to three years back we went through a huge pace of hyper growth as far as JMC is concerned. Now, the last two years we are getting into consolidation more in a very, very significant manner, but focus is on bottom line rather than improve the EBITDA margin as you rightly pointed out, compared to just improving the top line, so it is a part of overall constant strategy that we follow.
- Sudhakar:** My second question is on your BOOT project, so as of now what has been the total investment both debt and equity in your BOOT project for all your six BOOT projects?
- Kamal Jain:** On the four road projects, we have invested close to around Rs.1600 Crores debt and equity together, on the two transmission projects we have invested around Rs.100 Crores of equity

- Sudhakar:** Is it possible for you to give us a breakup between debt and equity for both BOOT and transmission line?
- Kamal Jain:** To clarify, we have four BOOT projects in road and two transmission line projects, which is on the KPTL four BOOT projects, and which is on the JMC, Gautam will provide you the exact information?
- Sudhakar:** Is there any more equity commitment which you need to do this year in any of these projects?
- Ranjit Singh:** As far as Kalpataru BOOT projects are concerned, we have full commitment. On the road side, we need to put more equity during the year, because for some of the projects what has happened is since there have been delays and of getting the CODs. There are some cost overruns on account of interest and all those, so we will have to put some more equity on that account.
- Sudhakar:** That equity investment you will do from your standalone balance sheet right?
- Manoj Tulsian:** Yes.
- Sudhakar:** Secondly, you mentioned that there is some delay in getting CODs, this has been happening almost for the last six months, why is there so much delay in getting the final COD?
- Manoj Tulsian:** That is a very good question. If we have the answer we would definitely like to share the same. It is the way NHAI behaves and performs at this point of time and it is the challenge which everyone is facing in the industry in getting these approvals done from NHAI. Hopefully going forward with some corrective actions being taken already, because these messages have gone to the Ministry and there are some supports which is visible now from the ministry on these accounts. There have been some meetings with NHAI also to expedite many of these COD approvals. So, hopefully we would be able to see better approval process going forward.
- Sudhakar:** When you say provisional COD, are you able to toll on these roads?
- Manoj Tulsian:** The moment we get the first provisional COD that means we get tolling right on a portion of the stretch.
- Sudhakar:** Right and last question is on your Indore project, what is this project about, is this a commercial complex or retail, what is this exactly?
- Ranjit Singh:** Thane project is a commercial property and in case of Indore it is commercial-cum-residential project.
- Sudhakar:** Thank you and all the best.

- Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Good morning Sir. My first question is on the T&D business. I am referring to this presentation from CERC which talks about 210 gigawatts of power capacity broadly online and of this about 140 gigawatts of capacity getting used up finally. I wanted to get sense of this short of 60 gigawatts, how much of it would not be getting use because of T&D evacuation infrastructure not being in place?
- Ranjit Singh:** It is very difficult, lot of studies which have got done, but no one has done very comprehensive study in terms of what is the total. People have indicated that recently there is a statement from power trading corporation talking about despite the linkage that has been done by power grid corporation linking the southern grid with rest of the grid in India, still power trading rates in south are significantly higher compared to rest of the country which effectively means that the transmission grid is not able to support the requirement of the demand or imbalances in demand, so it is a complex subject, it is not only simple capacity, but also the peak demand. If you are putting renewable capacity, in renewable capacity what happens is though it may be just 1 megawatt, the total transmission requirement will be much higher, because it is all skewed towards the daytime or when the seasonal variations are there, so the transmission capacity that you have to built to evacuate one megawatt or support one megawatt of evacuation of renewable energy is much higher compared to nonrenewable energy.
- Aditya Mongia:** Essentially my question was that we keep on talking about projects which are stuck in the sense they are not come online. I wanted to get the sense of an opportunity from the projects which have already been commissioned, from a T&D perspective, whether there is a large opportunity from there also?
- Ranjit Singh:** Yes, those opportunities are there, but again the issues like ROW and Forest Clearances etc, etc also are present there in transmission line sector so that puts certain dampener in terms of when will the opportunities actually get translated into bottom line or top line.
- Aditya Mongia:** What I am trying to say is that if I look at FY'14 financials of yours I kind of add up the standalone, JMC and Shubham Logistics EBITDA value, it comes to a certain number which is greater than what you report on a consolidated basis at an EBITDA level. So is there some which I am missing when I am adding these two entities up. Is there something else needs to be done comes to the consolidated number?
- Ranjit Singh:** Yes, if the EBITDA level is because of the BOT project, BOT projects interest and depreciation gets adds up where EBITDA is higher. We can meet personally, I think if you have any specific question we can clarify you.
- Aditya Mongia:** Sure Sir, I will take it offline.

- Kamal Jain:** I think that will be better. The EPC business is with JMC for this BOT asset so when the consolidation is done the margin which is there on the EPC business is netted off at the consolidated level. That is why you will always see a lower EBITDA.
- Aditya Mongia:** Okay sure Sir. I think I got the answers for my questions. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ashish G from Reliance Mutual Fund. Please go ahead.
- Ashish G:** Good morning Sir. I just wanted some clarification on the working capital side. How do you manage the working capital in your core T&D business and also the newer areas like infrastructure EPC and railways, so there will be some element of retention money and some element after the completion, if you can just give a perspective on how is the working capital situation panning out in both these businesses?
- Ranjit Singh:** Broadly the three or four major parts which are there we are talking about. One is the trade receivables. We have put a significant focus on trade receivables part and we are seeing an improvement on trade receivables. In this quarter we have seen in terms of the number of days improvement compared to similar quarter last year, it has come down by about 15 to 17 days. Second major part is inventory that we have to keep because as you may be aware we also manufacture towers ourselves so we got three factories, two in Gandhinagar and one in Raipur where we manufacture tower. So second major focus area is inventory of tower, raw material, finished goods, work in process, etc. It is manufacturing part of our business, there also we have started focusing on it significantly and I am glad to inform you that last year compared to 147 days of total inventory that we had, this quarter we have able to reduce it to about 100 days. So that is the second part which is there. The third part is the retention. Retention is inherent part of this business. Typically the retention amount which ranges from 5% to 15%.
- Kamal Jain:** I would like to add something. In case of retention money certain retention money is linked to the erection of the tower. So we try to plan in such a way that the supply and the erection is coordinated well so the retention money gets released at the earliest possible.
- Ashish G:** So there are no delays in terms of your customers like PGCIL or the State Electricity Boards?
- Ranjit Singh:** The whole process works like this, number one, once you completed the project it get energized and after that part of the retention money may be given back. Number two we also in some of cases what we try and do to improve our liquidity is that we give some kind of a guarantee and get money back from them. Otherwise, it will be a period of one year after which we will get the retention money back.

- Ranjit Singh:** Sometimes there can be delay also because if due to ROW issues, we could not erect the tower, etc., in some projects sometimes it can get delayed by two to three months. That goes case to case basis. In most of the cases we have been getting it on time.
- Ashish G:** Another question was on in terms of your Capex outline for your core business and also in your BOOT projects, are we self-sustaining, are you seeing the traffic valuations to be healthy to sustain the debt repayment that come up or the interest payment that come up?
- Kamal Jain:** On the Capex side, in case of Kalpataru we have planned Rs 100 Crores Capex during the year,. In JMC, On the Capex side surely there is a pressure compared to our financial model and these projects initially are having a gestation period in any case. So there would be some of the cash losses which would be visible in these projects and we have to fund it either through internal accruals or through borrowings.
- Ashish G:** Is there any numbers that you are looking at in this year or next year how much of funding requirement would be there from these projects?
- Manoj Tulsian:** Difficult to say because only one project has spent around 7 to 8 months. The other project had just started around two to three months back and the rest of the two projects also have to start. So only when we go live and then have some stability over a period of six to nine months we are able to see that what is the type of deficit which is there. So to put a number right now will be difficult, but yes, surely it will need capital in the next two years.
- Ashish G:** Okay, your standalone balance sheet should be able to support that?
- Manoj Tulsian:** Looking at the present rate of margin and all those things we have to have more borrowings.
- Kamal Jain:** As far as transmission line BOOT projects are concerned, they are annuity business so there is no traffic variation, etc.
- Ashish G:** Okay Sir, thanks a lot for the clarifications.
- Moderator:** Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss. Please go ahead.
- Swarnim Maheshwari:** Good morning. I wanted to ask three questions. First one is if I am looking at the interest cost, it has actually gone down by 16% YOY in KPPTL standalone. Now this is despite the increase in borrowings of Rs 50 Crores. Is there any Forex gain sitting over there?
- Kamal Jain:** On an average 0.25% to 0.3% interest rate we have achieved lower than compared to the last year.

- Swarnim Maheshwari:** Sir what is the current cost of debt?
- Kamal Jain:** Current cost of debt is around 10%.
- Swarnim Maheshwari:** This was somewhere around 10.25% in Q1 FY'14.
- Kamal Jain:** It was around 10.5%.
- Swarnim Maheshwari:** So overall your cost of debt has gone up.
- Kamal Jain:** You can say 3.5 to 4% reduction is there.
- Swarnim Maheshwari:** Okay and sir second question would be on the SSL. What is the current utilization rate? As I see there is a 7% decrease in the revenues now this is despite that we have increased almost around 0.2 million tonnes of capacity in last quarter. Is the capacity utilization rate has gone down?
- Kamal Jain:** As far as the old capacity is concerned there has been 95% plus utilization and the new warehouses where the capacity utilization always in the beginning will be lower. So initially it was only 50% capacity utilization in the new warehouses which we have created, 2 lakh tonnes capacity which is likely to improve during the year.
- Swarnim Maheshwari:** Is it reasonable to assume that we can achieve almost around 10% to 15% kind of revenue growth for the full year in SSL?
- Kamal Jain:** We have given the guidance of 20%. So we can assume 15% to 20% definitely.
- Swarnim Maheshwari:** Okay and final question on the T&D side if you can tell me what was the T&D international revenue growth during the quarter from the exports market basically?
- Ranjit Singh:** From exports market, the revenue has been 49% from the T&D.
- Swarnim Maheshwari:** This is about the mix, I was what asking about the growth on a YOY basis?
- Ranjit Singh:** Growth is something like 40%
- Swarnim Maheshwari:** From the exports market?
- Ranjit Singh:** Yes.
- Moderator:** Thank you. The next question is from the line of Chinmay Gandre from Dalal & Broacha. Please go ahead.

- Chinmay Gandre:** Regarding your Shubham the sales have declined, can you elaborate a bit on that?
- Kamal Jain:** Sale declines sometimes because of the allied services etc., revenue mix can change a little bit Q-o-Q basis, but overall we have planned 20% growth, which is achievable.
- Chinmay Gandre:** Sir your borrowings are now Rs 358 crs, so at the end of the year what would be the borrowing that you see for Shubham?
- Kamal Jain:** It is likely to increase by Rs 40 to 45 Crores.
- Chinmay Gandre:** The current capacity would be roughly 1.9?
- Kamal Jain:** 1.7 million.
- Chinmay Gandre:** But 1.7 was as of last quarter also?
- Kamal Jain:** Last quarter we said 2 lakh tonnes have been added recently, not the March end, it was on the day on which we had the the con call.
- Chinmay Gandre:** So it is 1.7 now and you plan to take it to near 2 millions?
- Kamal Jain:** By end of 2016.
- Chinmay Gandre:** End of FY'15?
- Kamal Jain:** 2016 only. It will be 2 lakhs but in case if need arises we might go on the lease rental base, in that case capacity increase might take place.
- Chinmay Gandre:** So basically you borrowing would not scale up more than Rs 40 to 45 Crores?
- Kamal Jain:** Yes, this year it may not scale up more than 40 Crores.
- Chinmay Gandre:** Okay and regarding your standalone business the raw material cost as a percentage of sales if I add both your raw material as well as your subcontracting together, it has come down to almost 69% of sales. Any particular reason, because normally it is more than 70% of sales. 70% to 71% of sales and now it has come down?
- Kamal Jain:** It depends upon the product mix. Sometimes erection can be more. Sometimes if it is overseas supply the other expenses can increase more, which can be related to do a freight, etc. and agency commission etc which is higher in case of overseas project, which is not there in the domestic so the moment the mix changes, this percentage ratio can half a percent here and there can happen.



- Chinmay Gandre:** Sir what would be your consolidated debt including loans in the BOOT, all put together?
- Kamal Jain:** It is around Rs 3050 Crores.
- Chinmay Gandre:** 3050 Crores, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sagar Parekh from Enam Holdings. Please go ahead.
- Sagar Parekh:** Sir, firstly I wanted to know in the competition on the T&D side recently, in the recent PGCIL tenders we have seen players again coming back. So are you seeing again the pricing pressure?
- Ranjit Singh:** Early days, very few tenders got opened in the last quarter, so it is very difficult to say. Couple of things which are happening is, certain amount of order is taking place, where few players who are financially not sound, their bids have been treated as non-responsive by PGCIL so that is the positive development as far as competitor intensity is concerned.
- Sagar Parekh:** So even when you are bidding for the tenders 9% to 10% EBITDA level should be sustainable?
- Ranjit Singh:** That is long term and that is what we stick to.
- Sagar Parekh:** You mentioned that your inventory days are down from 147 days to 100 days am I correct?
- Ranjit Singh:** Yes, that is right.
- Sagar Parekh:** What is the reason for such a sharp fall?
- Ranjit Singh:** Factory-related inventory.
- Sagar Parekh:** So what is the overall inventory days?
- Ranjit Singh:** Overall inventory days off hand I do not recall, but we will get back to you on that.
- Sagar Parekh:** What is the reason for such sharp fall in factory-related inventory?
- Ranjit Singh:** We are specifically focused on that number one. Number two we have changed the mix, so the improvements which took place, there was a lot of slow moving inventory, so we put up a team under operational excellence initiative to improve this so that is one result. Number two three, another reason has been that the purchase percentage from domestic has gone up. So that also reduces has some positive impact of the inventory.
- Sagar Parekh:** Sir in receivables any sticky receivables from SEB side?

- Ranjit Singh:** No.
- Sagar Parekh:** What would be the total loans and advances given to subsidiaries from standalone?
- Kamal Jain:** Rs 433 Crores.
- Sagar Parekh:** Rs 433 and can I have the breakup of the same?
- Kamal Jain:** Rs 184 Crores is for Indore project, Rs 179 Crores for Thane project, and Rs 56 Crores to Shubham Logistics; these are the major.
- Sagar Parekh:** Sir in JMC from your current order book what would be the core margins because in the current quarter the margins look higher because of the one-time claims that you received from one other client. So going forward what kind of margin should we expect and what are the sustainable core margins in the order book?
- Manoj Tulsian:** We mentioned that we are looking at a core margin of around 6% for this year.
- Sagar Parekh:** Okay and in your infra business you mentioned that Rs 150 Crores is the low margin orders still remaining in the order book. So this Rs 150 Crores is including pipeline and railways both or this is just railways?
- Kamal Jain:** It is both. Major is from the railway. Pipeline is hardly anything. Mainly it is because of the under utilization of the resources, the loss is because of that.
- Sagar Parekh:** In pipelines I understand that your capacity utilization is very low because of which there are losses.
- Ranjit Singh:** Yes it is very low. We have received certain orders in the last quarter of the previous year and this year we have already started working on those projects and work is likely to pick up in the second or third quarter.
- Sagar Parekh:** Right, so then this year infra should at least breakeven on the EBIT level.
- Ranjit Singh :** No, definitely it should breakeven more or less in quarter 4.
- Sagar Parekh:** Okay, great, all the best, that is it from my side.
- Moderator:** Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

- Sandeep Tulsian:** Good morning Sir. Most of the queries have been answered. I just was trying to figure out one thing in Shree Shubham, in between the line items of EBITDA and PBT what is the main difference, because in our EBITDA has grown substantially from Rs 9.5 Crores to about Rs 15.5 Crores but subsequently PBT has declined, finance cost and all increased a lot. So what is it that is causing this decline?
- Kamal Jain:** It is mainly in the new warehouses which have been added because of that the EBITDA has gone up and the capacity utilization has been lower in case of the new warehouses, which have been added during the year.
- Sandeep Tulsian:** Right Sir, but basically EBITDA is about 66% up but PBT is down and just trying to figure out?
- Kamal Jain:** PBT is down because the new warehouses and their capacity utilization has been very low.
- Sandeep Tulsian:** So under which cost head does that reflect, those higher costs?
- Kamal Jain:** Overall revenue.
- Kamal Jain:** Last year, 8 Crores of the other income was there. If we are comparing year quarter with this year that Rs 8 Crores has been distorting the numbers.
- Sandeep Tulsian:** What was that Rs 8 Crores other income last year, if you can just enunciate that?
- Kamal Jain:** It was one of the assets which we could not convert into the warehouse.
- Sandeep Tulsian:** Okay Sir, thank you for clarifying that.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisor. Please go ahead.
- Bharat Sheth:** Good morning and my question is on JMC. Sir you said that there was a one time claim has been received in this quarter so how much was that?
- Manoj Tulsian:** We have received the same from two to three clients which was amounting to around Rs 3.5 to 4 Crores.
- Bharat Sheth:** You said that this core EBITDA will be 6%. So if we add this Rs 3.5 Crores so to that extent core EBITDA should be a little higher correct?

- Manoj Tulsian:** No, 6% we are saying is the core EBITDA based on assuming that we will be getting certain claims which we file from time-to-time on delay work and all those things. So that is the business margin which we are looking at.
- Bharat Sheth:** This quarter our interest cost has shot up substantially over Q4, whereas borrowing has not gone up so much. So is there any reason?
- Manoj Tulsian:** Borrowings have gone up during the quarter and if you compare it with the previous quarter what has happened is we started with certain borrowing level at the end of Q4 and beginning of Q1, that has its impact for the whole three months plus borrowings went up in the month of April itself and slightly our interest rates has also gone up by around 50 basis points.
- Bharat Sheth:** So in case of KPTL interest rate has come down, in our case it has gone up. So what is currently our cost of the debt?
- Manoj Tulsian:** It is around 11.25%.
- Bharat Sheth:** Where do you see income tax rates for the full year, in Q1 it has gone up?
- Manoj Tulsian:** Tax rate will be somewhere around 27% for the full year.
- Bharat Sheth:** Okay and Capex?
- Manoj Tulsian:** Capex would be somewhere between Rs 50 and 60 Crores maximum. Though we would like to restrict it because of our capital cycle during the year and other challenges, but in some of the new technology initiatives and all those things we have to invest anything between Rs 50 and 60 crs.
- Bharat Sheth:** How do you see order intake side, going ahead how much do we expect?
- Manoj Tulsian:** This year end we are again looking at order book of close to around Rs 5000 Crores.
- Bharat Sheth:** Although we have orders in the hand but execution side we are facing the problem to grow the top line so really what is the strategy?
- Manoj Tulsian:** Right now this year if you see as per our guidance and as per our execution plan itself we were looking at a growth of anything between 5% to 10%, but because of Q1 we have trimmed down our growth and possibly we will be between 0% and 5%.
- Bharat Sheth:** Going ahead do you expect our borrowing will go up?

- Manoj Tulsian:** Yes, it looks like the borrowing will further go up because of some of the challenges of funding this BOT project.
- Bharat Sheth:** How much we plan to put money in BOT this year?
- Manoj Tulsian:** This year we have a plan to put around Rs 100 Crores in the BOTs.
- Bharat Sheth:** I think total funding was required around Rs 420 Crores and I believe that we had already done 300 plus.
- Manoj Tulsian:** Yes, we have done around Rs 385 and we will have no need of capital because as I mentioned in the call earlier also, some of the projects where the CODs are getting delayed because of that there is interest charge which will get capitalized only when we get the final COD and to that extent capital has to flow in.
- Bharat Sheth:** In stead of our original estimate of Rs 420 Crores, we will need above 500?
- Manoj Tulsian:** No, less than 500 right now.
- Bharat Sheth:** And then you said that next year also we may need to put something in?
- Manoj Tulsian:** Yes, depending on how the projects behave and on that basis yes, we have to take that call next year.
- Bharat Sheth:** Okay, that is all.
- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** I have just two clarifications. One is again continuing from the last question on this investment in BOT assets, if I understood you correct there is some cost over runs which means that we will have to actually invest incremental equity into these projects and for which we will have to take debt. Now, is the debt on our books which is KPTL books or will it be incremental debt in JMC books?
- Manoj Tulsian:** Right now it should be on the JMC books only.
- Bhoomika Nair:** So logically whatever will happen in KPTL will be in line with the execution and working capital requirement incremental debt.
- Ranjit Singh:** In KPTL, what we have given the guidance is at the year end there will not be much increase in the overall debt.

- Bhoomika Nair:** Okay, because we are looking to monetize the Thane and Indore properties by then.
- Kamal Jain:** You are talking about consolidated debt?
- Bhoomika Nair:** No Sir, only KPTL debt.
- Kamal Jain:** That is what I am saying, there is not much increase in that is expected.
- Bhoomika Nair:** But if execution picks up logically there will be some working capital requirement and debt related to that right?
- Kamal Jain:** That will be in that company so there can be consolidated level, that can be Rs 50 to 100 Crores plus/minus can be there. We have given the guidance of the year end, consolidated debt will be around Rs 3300 Crores.
- Bhoomika Nair:** Okay. Second clarification was in terms of the order intake where we are confident of doing about Rs 4000 to 5000 Crores and if I heard you correct you mentioned that we have L1 orders of about Rs 1000 Crores.
- Ranjit Singh:** Yes, favorably placed, everything put together.
- Bhoomika Nair:** Sir, if we obviously got some sense on how the domestic business environment is in terms of ordering and competitive intensity, if you could also just throw some light on how is the ordering activity in the international market, how is the competitive intensity of that with some more players entering the market?
- Ranjit Singh:** International market on overall basis we see some kind of shrinking of pie that is taking place in the relevant markets that we are there, but whole lot of markets we are not present. So that gives the opportunity in terms of exploring new markets and adding new countries. If you see our records in the last two to three years, every year we have been adding about two or three new countries, where we have been not there. So it all depends on how you slice the market in terms of the total market and the market share.
- Bhoomika Nair:** Sir where are we seeing this reduction in terms of the market in the international markets which if you could just specify some countries?
- Ranjit Singh:** Overall basis we can say Africa maybe some reduction because some amount of multinational funding issues have been there. There will be some kind of reduction which has taken place in Africa but it is very, very difficult. There are whole lot of projects which are in the pipeline and whole lot of other multinational agencies which are there, and the Government of India also is now putting a lot of thrust in terms of financing, so Exim Bank financing, projects also new opportunities which are

emerging, especially if you see the new thrust of the new government is on SAARC and building relations in SAARC. One of the key cornerstones of building relationship is financing projects in these countries, like Mr. Modi went to Nepal yesterday he announced about 1 billion dollar worth of development for the Nepali government. Some of these projects are also transmission line projects.

**Bhoomika Nair:** So with the pie shrinking in some of the key markets which have historically been very strong for us and as we enter new markets, will the competitive intensity margins on the international projects actually, competitive intensity increase in some of these markets?

**Ranjit Singh:** It is very, very difficult to say as of now will have to see project-to-project. It is depends on the PQ requirements, which are there in each project. So very broad way to statement is difficult or early days for us to really make a conclusion like that. Every project has got its own, depending on what is the voltage of project, if it is a high voltage project or if it is a large project there will not be too many players who will have the requisite prequalification. So competitive intensity is going to be lower, but what the major segment that we see emerging is SAARC, because in Bangladesh also significant amount of focus has been there. Sri Lanka also new government is trying to improve the relationship and one part of the package is especially to offset the Chinese aid and Chinese funding, which is taking place. India is also trying to fund the neighbors.

**Bhoomika Nair:** But what I was trying to ask is more in terms of our markets like Africa or Middle East etc., where you said there is some shrinking in the pie and there is an increase competitive intensity in those markets?

**Ranjit Singh:** You could say that, for few tenders yes, you have seen that okay, some of the players have been aggressive. Some of the Chinese players we saw came up with some numbers which have put a better price, but those are totally irrational kind of pricing. Our competitive position is very, very strong in the places plus our ability to execute projects is also very, very high. So broadly yes, we have seen some shrinking, some competitive intensity increased, but too early for us. We will have to wait for couple of quarters really to see as to whether it is a longer-term trend or just a blip.

**Bhoomika Nair:** Okay, thank you and wish you all the best.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Ms. Bhoomika Nair for closing comments.

**Bhoomika Nair:** Thank you very much Sir for taking the time out and all the participants for being on the call. Thank you very much.

**Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.