



“Kalpataru Power and JMC Projects Q2FY14 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Kalpataru Power and JMC Projects Q2 FY 2014 Results Conference Call, hosted by IDFC Securities. 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 this 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. Thank you and over to you Ms. Nair!

Bhoomika Nair: Thanks. Good morning everyone. Welcome to the Kalpataru Power and JMC Projects Q2 FY14 Earnings call. The Kalpataru management is being represented by Mr. Ranjit Singh, Managing Director, Mr. Manish Mohnot, Executive Director; JMC Project Management is being represented by Mr. Manoj Tulsian, CFO. I will now hand over the call to the management for their initial remarks post which we will open our floor for Q&A. Over to you Sir!

Ranjit Singh: Good morning everyone. We have declared our Q2 H1 FY 2014 results of both KPTL and JMC and the copy of results, press release and presentation have already been sent to you.

Before proceeding with the Q&A session, I would like to take you through the key highlights of the results and recent developments in the second quarter.

As far as KPTL is concerned in this quarter, we have achieved topline growth of 35% year-on-year basis due to better execution of both domestic as well as international projects. Apart from this, in line with our globalization strategy, international business has grown again in this quarter and now it contributes almost 50% of our total business.

This growth has taken place along with margin improvement for KPTL as a whole. For the first half of the year we have achieved a core EBITDA margin of 9.9% against 9.6% earlier. In the first half, PAT has grown to Rs 65.7 Crores versus Rs 53.9 Crores with the growth of 22% year-on-year.

The infrastructure segment that is pipeline and railways continue to remain under pressure both in terms of revenue as well as profit. Revenues are impacted mostly because of heavy rains in the eastern region where the large number of projects especially in the railway segment are located and the general ROW issues. The profitability is impacted mainly due to decline in revenues and utilization on certain resources in the pipeline segment and certain execution delays. This pain is likely to continue for the next two quarters; however, as a part of our portfolio diversification strategy, both the business are going to grow and we will view infrastructure segment as positive in the long term.

Order inflow traction remains intact. We have received orders of Rs.1,750 Crores in the first half that is the growth of 38% year-on-year. Going forward with current order book in hand and favorably

placed bid. We are estimating a topline growth of 20% plus for financial year 2014 and 15% to 20% for financial year 2015 while maintaining core margin in the range of 10%.

We have started development process of our second transmission line BOOT project that we got in MP. The approval process and debt tie-up is on the way and the target is to start the construction in Q4 of financial year of 14.

As far as JMC is concerned, as per our earlier discussions, we have maintained the topline with the marginal growth and some improvement in the margin. In the first half of the year, topline has grown by 10% and core EBITDA margin improved by 30-basis points.

Order inflow was very, very strong at JMC in the last quarter. We have received orders of Rs.3800 Crores in the factories and building segments from across major cities in the countries, i.e. Gurgaon, Mumbai, Chennai and Calcutta. All are BOOT project is the road segments are progressing well. Rohtak-Bawal project has received provisional COD from NHAI. Post this the toll collections have started recently. Agra-Aligarh project would be completed by end of this financial year.

The other two projects will be operational in next financial year. As far as SSSL is concerned, it continues to grow. Topline has grown by 59% and core EBITDA has grown by 43%. PAT has not grown primarily due to sharp increase in finance cost which is mainly due to capitalization of few new warehouses.

With this update I would like to open the floor for Q&A discussion. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Ms. Renu Baid from B&K Securities. Please go ahead.

Renu Baid: Good morning Sir. Congratulations first for the very strong set of results especially execution ramp up that we have seen. What I essentially want to understand is ramp up in execution at the standalone level to what extent is driven by our export sales and how does the revenue break up look between domestic, exports as well as other segments of the transmission line?

Ranjit Singh: Broadly, if you look at a revenue portfolio transmission line to start with continues to contribute 90% plus to our total revenue. I do not expect that to change in the next few years, revenue in infra segment are primarily in a consolidation phase. Now within the T&D segment, in-line with our globalization strategy which we have been following for the last one-and-a-half years we have seen significant increase in revenue coming from the international segment. This year, we reached the inflection point where for the first time, the international revenue has exceeded the domestic revenue. As far as order book is concerned, we have 60% of the orders from international segment and 40%

from domestic. Broadly, we expect this trend to continue as go along in future and that is the part of constant strategic choice that we made about one to one and a half years back.

Renu Baid: But within the second quarter, will it be right to assume exports would have been two-third or how does the number look in terms of transmission line revenue mix?

Ranjit Singh: Not two-third, but it is higher than it is about 55%.

Renu Baid: Okay and also second, if you look at the total loan fund, the Kalpataru standalone is having approximately of about Rs 835 Crores. How does the mix between the domestic and the overseas borrowing against working capital loans for export jobs stands, because that is an impact on our MTM that we have every quarter?

Manish Mohnot: If you look at from working capital perspective you know working capital international would be closer to out of the Rs 835 Crores what you have calculated, would be closer to 45% to 50%, because we have a lot of advances from the international projects. So working capital would be less as far as international projects are concerned, because of the high advances we had. Domestic would be higher in working capital today.

Renu Baid: Okay, just what I was trying to broadly kind of sense is may be in terms of short term borrowing that we have it is about Rs 640 Crores, so net of advances, because that essentially translates into that magnitude of MTM hit that we have interest expense. So current quarter, we have Rs 12 Crores in MTM. So, of those Rs 640 Crores what would be the forex working capital loans?

Manish Mohnot: These are mainly on account of reinstatement of foreign currency loans and Buyers credit of around 30 Mn USD

Ranjit Singh: I also will add to about Manish saying broadly, again I am saying broadly it may vary from project to project. International business is less capital intensity or capital employed intensity compared to domestics because advances that we tend to get number one. Number two, also the credit that we get on material purchase which is on high percentage of international business.

Renu Baid: Right. This is the follow up align on the same line given the rupee depreciation impact what confident do you have that you will be able to beat up the higher end of the guidance to 20% given the exports will help you with positive realizations in second half as well. So, can we look at guidance being beaten up with ease or you think that should be much more realistic to assume?

Ranjit Singh: 20% is the number that you like to take right now, because things are quite well entire as well as foreign exchange funds are concerned. 20% is something which we have quite confident of it, anything plus would be a bonus.

- Renu Baid:** The last question if you can just throw some light in terms of the capital employed reduction plans, which will leak it out in terms of debt repayment from the Shubham Logistics already comes through, how about the real estate projects and business, how is the progress there?
- Manish Mohnot:** Real estate front , there are two projects we have which we have discussed earlier Thane and Indore. Thane project is complete and we are now in the market trying to whether look at long term lease or looking at options to sell it off. Indore, the planning in at advance stage and we should be launching at soon. Realistically, we do not believe that the entire investment in that would get released in the current year. Some portion might just because of long term lease, but significant portion would go onto the next year. Shubham we have already seen a huge traction of reduction. Shubham capital employed as far as Kalpataru is concerned has come down significantly. Shubham has paid back more than Rs 100 Crores to Kalpataru in the last three months.
- Renu Baid:** So, the Rs 200 - 250 Crores of at least capital employed reduction plan for the year is on cards, I mean it is on track?
- Manish Mohnot:** Rs 200 Crores out of the core business is on track. We had two concepts of capital employed reduction. One was the core business. Second was coming back from the subsidiary which was the real state and Shubham. Shubham is on track, the core business is on track, but the real state might get delayed to as a quarter four or maybe quarter one of next year.
- Renu Baid:** Okay that looks good. Thank you so much Sir and all the best for the year to come. We will follow up with more questions.
- Moderator:** Thank you. Next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.
- Sumit Kishore:** Good morning Sir. Thanks for the call. I have a question on the ordering environment in the transmission sector in India. Could you please share some light on what kind of strength you see in transmission sector ordering from PowerGrid, state electricity boards and from private sector currently?
- Ranjit Singh:** As far as PowerGrid is concerned, we have seen some slowdown in ordering which has taken place, but to that we believe is a normal phenomenon takes place in the second quarter. PGCIL going forward significantly depend on couple of key drivers. Number one is green corridor that they have been talking about as renewable energy requires greatly amount of transmission capacity for the same MVA to be transmitted through the transmission line. If the ambitious plans are going to renewal energy comes through, there will be significant amount coming from PGCIL, so PGCIL is leading the initiative there and they have also tied up some KFW fund as far as this is concerned that will be one driver as far as they are concerned. We have also seen transmission bottleneck taking place in many, many areas, so that continues to be problem.

Third issue really recently Government of India has announced few UMPP project, so if that comes through to the next three to four years again you see significant number of traction coming in because what are the power if generated has to be evacuated and connected to do the national grid. So, these are three key drivers that we have seen as per PGCIL is concerned, state electricity boards again we see a significant amount of traction. In fact to one of the major orders that we have received in the last quarter is coming from on state electricity board of about Rs 400 Crores plus. We expect that to continue. As far as BOOT is concerned and private sector, two opportunities which are there and which both are participating we talked about last time. One is to participate in privatization of IPTC of transmission line as a developer. The second is the EPC contract. As far as the developer opportunity is concerned, we already have one Haryana project, which is already commissioned, the second project MP that we won last quarter, that is also on schedule and we should start construction in the first quarter of next calendar year that is Q4.

Sumit Kishore: Sir, as far as the orders rewards that you are seeing at the state electricity board is that broad-based or is it very localized in few states?

Ranjit Singh: It is localized in few state, a few states where we see significant orders from traction coming in with Tamil Nadu, Andhra, Bihar also as announced significant amount of transmission are saying, UP is also, so all the state is actually talking about it, but on ground we have seen significant traction coming up until now from Tamil Nadu and Andhra.

Sumit Kishore: Overall to sum up you know on the ordering activity in first half of this year, do you find it better as compared to the first half of last year for the transmission sector?

Ranjit Singh: As far as our order book is concerned yes, we see better traction compared to last year.

Sumit Kishore: Thank you so much for answering my questions.

Moderator: Thank you. Next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Good morning Sir. Sir on JMC last time when we met Mr. Manish, have been discussing about margin improvement possibility coming in and slowly moving up to 8% kind of numbers, but the traction is not yet come in the quarterly numbers, any particular reason for this or it is more on the aggregation front that we have lost the margins?

Manish Mohnot: I think 8% was the long term plan which we still stick to because it was not 8% in the year one of turnaround. In the current year, we are still stick to this plan of this 100 basis points improvement, you know seeing that improvement in Q2 is not so easy given that monsoon is something which disturbs all your projects. The confident of achieving this improvement in Q3 and Q4, the two things

which we have confident of now is that whole loss making projects nearly 95% of them we have already done. Second, the volatility in prices has reduced significant in the last six months. It is not as much volatile has reduced to be in the past. So next six months you will see some improvement, but not 8%, I think 8% is a part of it, but 50 to 100 basis points improvement, you will see coming up with the next two quarters.

Madan Gopal: You have got lot of orders from the building and factory section that is what you mentioned. Can you give first breakup on the order book? How much is building and factories and how much is other segments?

Manoj Tulsian: Total order book is Rs 5300 Crores, out of which the infra order book is around 30% and power is closed to 5%, the rest of it is factors and buildings.

Madan Gopal: So, the new orders that you won, what kind of orders, is there residential projects where it is majorly come from?

Manoj Tulsian: This is a mix of both residential and commercial projects and all orders have been on the factory and building side only and some of them from the southern territory from Bangalore which are residential projects. We have got one or two projects in northern territory which is in Gurgaon and one project in east again which is the commercial project.

Madan Gopal: On the existing order book is, are the residential projects and commercial projects moving in execution is happening or are you seeing any slow down impacting demand in these projects?

Manoj Tulsian: No, at least we are not facing any challenge of slow down as of yet the projects are doing there.

Madan Gopal: So how outlook is is, where do you see major growth coming in the infra segment, sorry in the construction segment, you will continue to do it in the factory and building segment or you see opportunity servicing in any other segment also?

Manoj Tulsian: Factories and buildings remains to be about major contributed to the business, there is strong foothold of us. We will continue to drive F&B segment, infra segment in the last one year, we have become very selective and unless and until we have really see you know some good margin traction. We are not going for infra orders.

Madan Gopal: Infra, which are the major areas we are in?

Manoj Tulsian: We are into the road sector and the metro rail.

Madan Gopal: This road also would be predominantly our own order book right?

- Manoj Tulsian:** Yes, road is our own order book that is right.
- Madan Gopal:** Sir on Shubham Logistics, you have shown a good increase in the revenue, but the bottomline did not actually grow. You said the capitalization of few asset have led to this, if you can elaborate. What is the capacity that we have buildup and what is the utilization as of now?
- Manish Mohnot:** The total capacity, which we are managing now is closer to 1.1 million tonnes, we got into six new locations in the last quarter primarily in the Madhya Pradesh. They have capitalized in the last quarter and you know once the new location it takes time for you to reach those 70%, 80%, 90% utilization. Rajasthan and Gujarat our utilization is anywhere between 90 and 100. Madhya Pradesh is still at the levels of 50% to 60%. It is just few months that we have been there and we expect that to come up to 90% to 100% by Q4.
- Madan Gopal:** So, on utilizing this 1.1 million tonne by 90% utilization where can revenues actually be for a full year basis?
- Manish Mohnot:** For the full year basis, we expect it to be a higher by 35% as compared to the previous year, so we expected to be more in the range of Rs 350 odd Crores.
- Madan Gopal:** Okay, Rs 350 Crores and what would be the debt end of this year in this business?
- Manish Mohnot:** More in the range of 250 odd Crores.
- Madan Gopal:** Okay, on the BOT side, which are the projects which will be commercialized this year?
- Manoj Tulsian:** Rohtak-Bawal we have just got provisional COD, we will get the final COD before December and the other project where we are looking at Agra-Aligarh which will possibly get commissioned in Q4 this year, so may be around March.
- Madan Gopal:** You have started collection toll in Rohtak already.
- Manoj Tulsian:** Yes, based on the provisional COD, because you know there were gaps we get a time of around three months to cover up those gaps and get a full COD, so based on the provisional COD, they are certain position of the land road which is completed. We get to collect the toll.
- Madan Gopal:** Okay, your first year revenue estimate from Rohtak was approximately Rs 100 Crores something, are we confident of doing this or do you think some downward because lot of projects as of now have been there has fallen the traffic estimations, so what is your estimation as of now for Rohtak?
- Manoj Tulsian:** The scenario actually changes post we get a final COD, because there are gaps so there are traffics, which actually does not wants to use the roads when there are 5, 6 intermittent gaps. So, I think a

better answer to this would be only after three months for sure when we get to the level of first full COD and then we see whether there are divergence and all those things which is happening, because normally it takes around six months to really assess that what type of toll we would be getting, have to give the time to this project to really understand and answer your question.

Madan Gopal: No problem. Thank you so much and best of luck.

Moderator: Thank you. Next question is from the line of Mr. Niraj Somaiya from Rose Red Management. Please go ahead.

Niraj Somaiya: I wanted to ask you first from a little long term perspective may be two to three years where do you see your transmission business growing in terms of revenue, in terms of margins and second you have two subsidiaries which today don't make much money for whatever reasons to contract, where do you see, when would they stable as in terms of half percent margin may be two, three normalize, could you throw me some light on little broader may be two years, three years from now?

Ranjit Singh: As far as transmission line business is concerned, we expect the growth this year to be 20% plus, subsequently we see about 15% to 20% growth we should be able to drive in a transmission line business.

Niraj Somaiya: Overtime you would be half-half both the business, international and domestic would be half?

Ranjit Singh: International business become higher, because off late what we have also done is started focusing on South Asia and SAARC, where we have not present earlier, the significant potential which is the Sri Lanka, Bhutan, Nepal, so we have formed a new group, which is specifically focusing on these segment and we have seen significant results coming out there. The second is earlier we have significantly Africa centric. In international business Africa used to be our major mainstay, now we have also diversified in the CIS countries as well in eastern europe, so that is going to yield results. Overall, the trend of increased percentage of international business or contribution of international business is likely to continue. Where will it stabilize I guess it will be about 70%.

Niraj Somaiya: The other two subsidiaries?

Manish Mohnot : Coming from the JMC perspective, our major focus is not actually on topline growth, so topline you would not see a significant growth in the next couple of years. It should be more in the region 5% to 10%, but our major focus is to make sure that from EBITDA levels of 4% and 4.5% that we were last year, we reach levels of 7 to 8 over the next couple of years. So entire focus in JMC is to make sure that EBITDA levels we improve significantly whether top line growth is going to be more in single digit levels.

- Niraj Somaiya:** Could we bring the EBTIDA from half percent from right now margin from half percent to may be 2%, 3% in the next three years. Do you think it is possible or do you think that is tough?
- Manish Mohnot:** It is tough to answer your question. Is it very easy? The answer is no. It is not very easy, because the nature of the business such that it cannot improve significantly, but we at least expect from half to reach 1.5 anywhere in the range of 1.5 to 2 in the next four quarters for sure.
- Niraj Somaiya:** You have invested Rs 400 Crores and you make Rs 10 Crores right now. So, in terms of at least 10%, so do you think some where is 1.5% margin is possible right?
- Manish Mohnot:** Yes, at least that we are focused towards achieving in the next two to four quarters, now 1.5 to 3 is going to be big journey and that is something which will be working towards but as of today, we are confident of 100 basis improvement coming up in the next two to four quarters.
- Niraj Somaiya:** So you would stabilize somewhere at Rs 3000 Crores as per JMC topline, somewhere in that range and margin of somewhere 1 and 1.5 we would achieve would be quite significant during the next two years, so is right to assume. Shubham Logistics where you have taken annual investment and when do you see the margins coming there in terms of investment? What would you do in this business? How do you grow it? Can you throw some light because it is still a new business and few companies in that if you could throw some more understanding what you exactly do and where this will go, if you could just throw more light on Shubham Logistics?
- Manish Mohnot:** Sure, the number of questions you have asked it will take an hour to answer that, but let me to trying to do that in a nutshell. From the growth perspective, we continue to expand our operations into new states, after doing Rajasthan, Gujarat, we have done MP, we are getting into Maharashtra and we are looking at two, three more states over the next 12 months. Topline revenue should be in the range of Rs 350 Crores and we are expecting EBITDA anywhere in the range of 16% to 17% with the PBT more in the range of 7% to 8% in the current year if not slightly higher. So, in terms of topline growth as well as bottomline growth there will be significant improvement as compared to the previous year and if you look at previous year that was like a much better number as compared to the year before that. So, Shubham for the next three years, looks like on a continuous growth in terms of one, warehousing space, second the processing activities as well as the related activities of collateral management all of that and third looking at you know better revenues in terms of what can we do in terms of wholesale retailing, trading all of that. So, in the next three years and Kalpataru's investment in Shubham would not be significant Shubham has paid back Kalpataru closeto Rs 100 Crores in the last six months, so on our investment we have making a very decent return, so hopefully in the next couple of years we should do much better than where we are today. On a topline Shubham should be going to 25%, 30% over the next three years.

- Niraj Somaiya:** One last question on BOT. Your BOTs which you have, what sort of EBITDA margin like other co's is 30% EBITDA or is it more realistic in terms of EBITDA when you do the BOTs and you will take the contract to do it. What sort of EBITDA margin, do you look at when you do this BOT are more realistic in nature or how is it in terms of your EBITDA margins for your BOT?
- Manish Mohnot:** No, are you talking BOT at SPV level or EPC at?
- Niraj Somaiya:** he BOT which you have about Rs 180 - 200 Crores and you actually do the constructions, so what EBITDA margins what your companies get when you do this from the BOT?
- Manish Mohnot:** Closer to 5% levels.
- Niraj Somaiya:** That is very good. You do not have that 30% right?
- Manish Mohnot:** If you look at balance sheet in the last two years, it could be all visible closer to 5% levels. At JMC closer to 5% to 6% level at Kalpataru it could be 8% to 10% levels. So it is in track with whatever is the EBITDA you are getting out of the projects which you are bidding in the market. It is not higher than that.
- Niraj Somaiya:** It is a realistic.
- Ranjit Singh:** Generally we do some kind of arm trend pricing as far as these are concerned, so it is significantly market driven, the benchmark in the market and based on that to do it.
- Moderator:** Mr. Somaiya may be request to return to the queue after this question please. Thank you Sir.
- Niraj Somaiya:** I have just three questions and when do you see the ROE's from 10% to 15% may be three years from now and that is my last question and wish you happy Diwali?
- Ranjit Singh:** We should see an improvement of closer to 100 basis point coming out by this year end, significant portion is dependent on exit of our two real state investments, which we believe should happen sometime in quarter four in the next year, but yes our internal target is to at least aim at 13% by15- 16
- Niraj Somaiya:** Wish you all the best and Happy Diwali to you.
- Moderator:** Thank you. Next question is from the line of Mr. Sudhakar Prabhu from Span Capital Services. Please go ahead.
- Sudhakar Prabhu:** My question is again regarding your BOT project, what kind of revenue do you see in the next two, three years, once all these road projects are operational do you think Rs 500 Crores, 600 Crores possible?

- Manoj Tulsian:** No, we are nowhere near to Rs 500 Crores of revenue it will be closed to anything between Rs 250 and 300 Crores.
- Sudhakar Prabhu:** Rs 250 to 300 Crores, once all these core projects are operational.
- Manoj Tulsian:** That is right and after two to three years what is the position was up to two to three years.
- Sudhakar Prabhu:** Two to three years and Sir what kind of equity IRR do you target in these projects?
- Manoj Tulsian:** See when we have bid, we have mentioned this earlier also whatever we have bid, we have bid it in the range of 14% to 16%.
- Manoj Tulsian:** Yes, that is what we have seen once looking on the scenario how is the economy has been doing in the last two years or three years which remains to be seen only when the project actually get launched and may be after a couple of years.
- Sudhakar Prabhu:** Right and as of now I believe your totally equity commitment is closed to Rs 420 Crores, so out of this how much is invested as of now and what is the amount, which you need to invest in the next one-and-a-half years?
- Manoj Tulsian:** We have invested close to Rs 290 Crores and possibly the way the projects are going on our plan we will invest another Rs 60 Crores this year and the rest will go in the next year.
- Sudhakar Prabhu:** Right, one question on your main Kalpataru business you have guided for 20% revenue growth, but if you look at your half year growth you have already grown at 30%, so do you think second half would be a subdued growth?
- Ranjit Singh:** Not subdued, it typically depends. Quarter-to-quarter it is very difficult to manage these kind of because lot depends on project company share when exactly the billing etc., takes place. Broadly, we have studied the whole thing we expect to about 20% plus.
- Sudhakar Prabhu:** But, historically we have seen that second half is always good for EPC Companies, so my question is related to that, because first half you have already told 30%, overall you are saying 20%, so that means second half growth should be lower than 20% I guess?
- Ranjit Singh:** So, year-on-year if you look at it, because the same seasonality was there also last year also, so yearend it growth last year also that was second half was better, this year also second half is going to be better compared to first half, but compared to last year's growth, we should be able to get something like 15% that is also broadly, but we will be able to guide you much better by December and following execution challenging remain the spaces, so it is very difficult for us to really commit anything right now.

- Sudhakar Prabhu:** Thank you and all the best.
- Moderator:** Thank you. Next question is from the line of Mr. Chinmay Gandre from K.R. Choksey Limited. Please go ahead.
- Chinmay Gandre:** Good morning Sir. Congratulation on good set of numbers. Sir, with respecting of borrowing it is Rs 830 Crores in the standalone business and I mean in the previous call we have guided around Rs 600 Crores that target at the end of the year, so I mean do you see that happening or you would like to revise that?
- Manish Mohnot:** I think we should be in the range of Rs 600 Crores only, because if you look at business every time you know the first two quarters it goes up and it improves in quarter three and four, so we still on track to on a target of Rs 600 Crores?
- Chinmay Gandre:** On a consolidated basis, what could be the debt target that would be trying to you will be having?
- Manish Mohnot:** Excluding the BOT projects it would be more in the range of Rs 1100 Crores. If we include the BOT projects it would be more in the range of closer to Rs 2000 Crores.
- Chinmay Gandre:** Okay and sir what is the average cost of borrowing for standalone right now?
- Manish Mohnot:** More in the range of 10%.
- Chinmay Gandre:** That is it from my side.
- Moderator:** Thank you. Next question is from the line of Mr. Sanjeev Panda from Sharekhan. Please go ahead.
- Sanjeev Panda:** Good morning Sir. Very good set of numbers, Congratulation on that. Hello, am I audible?
- Ranjit Singh:** Thank you, yes.
- Sanjeev Panda:** Sir looking at the Shubham Logistic as you said capitalization of some of the new warehouses that we have set up. What is the timeframe that we can ramp up our utilization rates so that we can look at a better number from Shubham?
- Manish Mohnot:** Typically based on our experience for the last three years, obviously once the warehouse is ready it takes anywhere between three and six months to ramp up to levels of 70% to 80% at which you start making very minimal money. From 80% to 100% would be anywhere between closer to 12 months.
- Sanjeev Panda:** Okay and looking at the segmental infra segment as you said that loss making till what time and is it legacy projects that are having this kind of problem or it is even the new projects that we are getting?

How is the scenario if you can throw some light? Second within the same question, the segmental part biomass it has become more of a volatile operating kind of scenario. If you can throw some light on that and say like how things are shaping up and how it is going to look in future?

Ranjit Singh: First of about two separate businesses which we combine in infra. One is the pipeline business and the other is railway business. As far as railway business is concerned right now focus is in consolidation phase, our focus and building organization, capability organization and build the organization itself, so that we can ramp up after one year, so right now, focus really is consolidation. As far as the losses that are concerned as you rightly pointed out, these are the projects we took very early on. Key reason really is as part of increased strategy and also to get prequalification. Once we finished the projects most of them will be finishing by the end of this year, most of the pain will be out of the system as the railway is concerned, subsequent projects we expect them to be profitable, but railway and pipeline both we see as long term bets as far as a portfolio strategy is concerned is part of our risk diversification as well as growth strategy of the Company as a whole. In pipeline we have been there for a long time from industry structure issues which are there, but we are seeing some signs of change in terms of realistic competition coming back as far as bidding is concerned but certain headwinds remain in terms of operational bottlenecks in terms of right of the way and things like that, so we need to really see if which way the margins go as far as this is concerned in the short term, but in the long term we have very confident of both these businesses and we expect that to grow from next year onwards.

Sanjeev Panda: Biomass part?

Ranjit Singh: Biomass also there has some challenges which are they in terms of agri commodity prices, agri waste prices being very, very volatile, but we are quite experienced in that area and we continue to see stable kind of a performance as well biomass is concerned.

Sanjeev Panda: Okay and the last question would be if you can guide us towards the Capex and debt that you can have for the consolidated entity?

Ranjit Singh: KPTL about 150 Crores Capex is what we look in this year, part would be of course international projects that we are taking up so then the Capex requirement which are going to come from there.

Sanjeev Panda: JMC would be between 50 Crores to 60 Crores?

Ranjit Singh: I think on a consolidate basis Capex should be more in the range of Rs 200 Crores, with KPTL being in the range of 150 Crores and JMC and Shubham being in the range of 50 Crores.

Ranjit Singh: Thank you.

Moderator: Thank you. Next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Good morning Sir. Could give you some outlook on the international order intake front, basically last year find opportunity into three regions, essentially how we looking at opportunities in America's market, secondly in the Middle East and thirdly from the Africa and CIS region which we are focusing on right now?

Ranjit Singh: In terms of order?

Sandeep Tulsian: Basically you must be doing some prospecting in terms of what the opportunities, what kind of growth you see in these markets, basically outlook from the next one to two years perspective in the form of order in some of these markets?

Ranjit Singh: As far as Africa is concerned, there is some potentially the largest segment which is in transmission line, because it is in earlier stages of economic development, large amount of investment takes place on power infrastructure development. The second thing that we see happening in Africa is interconnection across country, which is funded by African Development Bank, so the significant amount of collaboration which is taking place within countries like Ethiopia and Kenya. They are collaborating, because you know generating station places and consumption centers are far apart and that is why transmission line one of the key drivers to transmission line growth is this disparity between generating centers and now that we see significant collaboration coming in across countries, this is one segment, inter-country segment which is going to grow very, very rapidly as well, Africa is concerned. There is lots of multilateral funding also which is taking place as the second constraints as far as Africa is concerned, so we do not see at to be a constraint going forward. So Africa possibly will be the largest growth segment as far as our share of the business is concerned, Africa again we have been there for a long time. We have experienced over six to seven years. We have gone down with the learning curve very, very significantly. We have got significant competitor advantages. We have got cost structure basically because economies of scale and also because learning curve much more competitive compared to our competition, so we should be able to win larger percentage of market share that should be good. As far as Middle East is concerned, the JMC off late amount of investment which is taking place in transmission, but that is more competitive market, more open market and there are many more players over there to competitor intensity to that extent is higher. As far as America's are concerned it is a new entry strategy for us. It is a new market that we trying to focus on now. South America is very; very difficult because a lot of entry barriers, which are there. As far as North America is concerned we have already supplying in power component in that sector and we are looking at further growth opportunities there. Right now, we are not into EPC space as North America is concerned. Eastern Europe is of course the new growth segment. We have won lot of projects there. Again large amount of investments taking place in these area funded by Europe Development Banks EDB and Europe Investment Bank. There is some slowdown in the funding which is going to take place, but we see that in the longer run these areas are going to continue at a

high growth part and since we are focusing on these segments, we should be getting large part of business. Broadly that is the way we look at the international system.

Sandeep Tulsian: Sir basically at what rate like as you mentioned that domestic T&D market we expect to grow at about 15% basis on the longer term see may be next two to three years, what kind of growth would you peg now since the base and become quite large for us in the international market say on a two year perspective or three year perspective. What rate that you expect to grow at?

Ranjit Singh: By around 15%, this year 20% as we have said. Next year 15% to 20% and longer term growth if we look at about 15% primarily because of the large; second thing of course in our kind of business you can always have growth, but unprofitable growth, our focus really on profitable growth, you would like to bid very, very rationally and ensure in the core business you continue to bid and win project so which are based on our competitor advantage and not **(indiscernible) 42.21**.

Sandeep Tulsian: Is this one of the reasons why ordering take from Middle East has been lower in the recent past? You are focusing on profitable orders as you mentioned the market in a very competitive?

Ranjit Singh: It has been combination of two things. One yes, competitive prices because of which we have not been able to win. Second is focus on new markets and third a lot of Middle East in the last five years, you have seen except for Saudi where there has been a lot of traction you have not seen traction across whereas other countries in Middle East. So Saudi we have always been slightly cautious. We have gone and now there because of the price levels there, but the combination of both the availability of opportunity and competitive market.

Sandeep Tulsian: Sir secondly on the infra segment, the loss that we reported, would you attribute it purely to delays in execution or these are essentially low margin orders, which are there in the book and would take in the next two to three quarters for completely move out of your order book?

Ranjit Singh: As I said, in railway segment especially these are early orders that we took. We got into railway segment about two years back and that is for prequalification purpose and part of entry strategy, we constantly took order, which did not have very significant margins. That is playing out now. Of course we also have some operational bottlenecks, which are there, so our focus really in consolidating organizations as well as pending organization capabilities, finishing of these projects in the next two to three quarters and after that go on rater growth part as far as the railway is concerned as well as infrastructure.

Sandeep Tulsian: Sir could you just, this is my last question, could you just clarify between the scope of in railway segment for KPTL and JMC how different it is what exactly we do in both of these companies how is the different?

- Manish Mohnot:** Typically on railways, the civil component of the work is done by JMC. We have it combined team which does the entire work. So as far as team is concerned to combined team, but in the civil part of the work with time get the JMC expertise to do the work. On the electrification as well as traction as well as station part where the KPTL team in work.
- Sandeep Tulsian:** Civil would essentially include building and bridges and station?
- Manish Mohnot:** Exactly building station, the ballast and all of that, earth works, all of that.
- Sandeep Tulsian:** Thank you for clarify my question.
- Moderator:** Thank you. Next question is from the line of Ms. Pooja S. from Keshav Securities Limited. Please go ahead.
- Pooja S:** Thank you for taking my question. My question is on JMC. Sir, when I see your debtors on the books it is around Rs 317 Crores on a sale of around Rs 2500 Crores for the year, so are you comfortable with this level of debtors or do you see will you try to reduce it in the year forward?
- Manoj Tulsian:** A lot of work has been done in the past 12 months if you really see and even despite of investments in the BOT projects and our debt level has come down in absolute value from March level. So these are very healthy level of debtors at this point of time and significant improvement from here is very difficult. Yes, we are very careful and in our entire process of managing the debtors book, but to answer a question we may look at improvement of three to four days or five days in the next nine month not more than that, because the significant junk has already been done.
- Pooja S:** Other any overdue amount from these debtors?
- Manoj Tulsian:** No, they are no cases like this in this business, yes overdue in the sense they have would be cases where at times we will not get the money for a couple of months, but then we put those efforts to get back of our money. So that is part and parcel of the business, but I think from your position is, is there any worry on that side, then I would say no.
- Pooja S:** Secondly Sir, in the JMC business, on networth of around Rs 430 Crores you are doing of PAT of around 18 to 20 at present which gives you return of less than 5%, so which is very less, so how do you going forward?
- Manoj Tulsian:** If you also see out of that networth significant chunk of money has gone into the BOT investment. So the BOT investment will start showing results there are gestation period of two to three years in all these projects when they start. So you see those returns materializing after two, three years and at that point of time you can see a healthy number. That would be in the range of around 10%.

- Pooja S:** Lastly just now you have explained that focus on international business revenue going forward, so in this case in US market actually you are not doing any EPC work right now, so you need to acquire some local player with that and you intend it to do so, so is there any progress in this regard?
- Manish Mohnot:** Nothing very specific that we have to report as of now. We continuously keep looking at this opportunity as being part of global recognition of global leader in transmission segment, we have to present in the North African market, which is a very large market. As then when any developments take place we will definitely come back to you.
- Pooja S:** Thank you. That is it from my side.
- Moderator:** Thank you. Next question is from the line of Mr. Ankita Bora from BNK Securities. Please go ahead.
- Ankita Bora:** Sir, good set of numbers. I just asked three questions. First we have seen although gradual, but improvement in our EBITDA margins, also now with all are focus to improve the margins of by approximately 50 to 100 BPS in the current year. What kind of key measures that you are taking up which you believe are expected to give you these kind of results?
- Ranjit Singh:** Sorry, you are talking about Kalpataru or JMC?
- Ankita Bora:** JMC Projects?
- Manish Mohnot:** Three or four key things. One is the right mix of orders. We have focused on a lot in the last 12 months to make sure that we have orders with variable price, so that we do not have the risk of commodity volatility on us and to a great extent we have achieved that. Today more than 90% of our orders are variable in nature where we do not have that risk. Second, there is a lot more focus on execution and delivery. We have devised a lot of mechanism and bring in; got in a lot of automation to make sure the delivery is a lot more focus. Third is the segments, which you believe and continue to have opportunities is where we are working with, so if you are seeing gradually at a infrastructure order book has reduced and power has reduced and factor and building continues to grow, so that the third thing. Fourth, we also continue to look at in overseas market, so wherever Kalpataru Power will establish we are trying to make sure that we could have JMC working with some projects, and they already have one project, JMC won a project a few months ago, so combination of all of them.
- Ankita Bora:** Also we have seen a lot of traction in our order inflows in the recent past. We have had healthy order inflows in JMC. So what are the future opportunities on offer in terms of order inflows both in domestic and international market?
- Manish Mohnot:** As we have had said earlier, I think from a long-term perspective at least for the next two to three years, our focus is to make sure that we have a healthy order book where we can achieve profits. We

have indicated that earlier also that we are not looking at significant topline growth on JMC, so we are looking at selective clients with whom we can focus on getting a right price and focus on delivery and look at that L1 kind of orders where you always have to be competitive to be the lowest price. International we are still opportunities. As and when we see an opportunity we are taking JMC along and making sure that we could have maybe a project one country every year kind of a target for the next three years. One additional country.

- Ankita Bora:** What kind of revenue growth target are we seeing for JMC Project for this year?
- Manish Mohnot:** 10% kind of a number.
- Ankita Bora:** 10% kind of a number and you think factories and buildings would be the key driver for these numbers?
- Manish Mohnot:** Yes.
- Ankita Bora:** That is it from my side. Thank you and wish you a very Happy Diwali.
- Moderator:** Thank you. The next question is from the line of Mr. Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Just a followup question on Shubham Logistics; one is what is the depreciation and interest charge for this quarter?
- Manish Mohnot:** Only for the quarter Madan?
- Madan Gopal:** Yes.
- Manish Mohnot:** Finance cost is 6.7 Crores, around 1.3 Crores.
- Madan Gopal:** The margin has come down by 200-basis point sequential this is again more to do with the capitalization, right? Fixed costs would have gone up?
- Manish Mohnot:** Capitalization plus initially warehouses the first six months do not reach that level of occupancy. So that is where the interest gets charged.
- Madan Gopal:** Full year, when you are saying Rs 350 Crores of revenue it would be around 90% utilization of 1.1 million or slightly lesser than that?

- Manish Mohnot:** It will be slightly lesser than that on a country wide basis. Rajasthan and Gujarat would be closer to 100% and MP would be more in the range of 70% to 80% and Maharashtra more in the range of 50% to 60%.
- Madan Gopal:** You should be moving back to 14% EBITDA margin there or it would be remaining lesser than that?
- Manish Mohnot:** It should be more than 14%.
- Madan Gopal:** Thank you so much Sir and wish you Happy Diwali.
- Moderator:** Thank you. The next question is from the line of Mr. Abhijeet Dakshikar from L&T Mutual Fund. Please go ahead.
- Abhijeet Dakshikar:** Just on your interest cost, the 12 Crores that you mentioned, MTM is included in the interest cost booked in the quarter?
- Ranjit Singh:** Yes that is right.
- Abhijeet Dakshikar:** So, the actual interest is just around 29 Crores?
- Ranjit Singh:** Yes.
- Abhijeet Dakshikar:** Was there an MTM also in the first quarter?
- Ranjit Singh:** Yes there was an MTM loss of Rs 8 Crores in the first quarter. Yes, so total MTM for the six month has been closer to Rs 20 Crores.
- Abhijeet Dakshikar:** Just one more thing when we say that the capital reduction plan within Kalpataru is on track how does that quantify?
- Ranjit Singh:** I think it is a based on a few initiatives, which we have planned, which is one on the early recovery of debtors and focus on collections. Second on inventory levels. Last year we just started the Raipur plant so inventory levels are very high so remember we discussed that in the last call. So it is a combination of collections of inventory levels is where we have focused plus collections received from some subsidiaries, which we have already got significant from Shubham so it is a combination of all of them.
- Abhijeet Dakshikar:** There was also a 50 Crores reduction that we were expecting from loans and advances this is for advance tax or something like that?

- Ranjit Singh:** Yes we should be able to achieve that so are in line of course there. Also I would like to point out in some cases like for PGCIL they have changed their payment terms for the newer projects for last one year so as the project mix changes more, more towards newer projects that will have an impact on the total collection cycle.
- Abhijeet Dakshikar:** The newer projects are more favorable for us?
- Ranjit Singh:** No, they are unfavorable to that extent but the numbers that we are talking about Corporate the negative impact to adverse impact of these. Actual if you look at on a like-to-like basis our improvements are significantly higher compared. We got a very ambitious target in terms of working capital reduction or capital employed reduction.
- Abhijeet Dakshikar:** But the tax thing has not really happened till now. So second half may we expect to takeover release from there?
- Ranjit Singh:** It should happen in the second half.
- Abhijeet Dakshikar:** Thank you sir, that is all from my side.
- Moderator:** Thank you. I would now like to handover the conference to Ms. Bhoomika Nair for closing comments.
- Bhoomika Nair:** Thank you everybody for being on the call and taking time out thank you very much Sir.
- Ranjit Singh:** Thank you. Very, very Happy Diwali to all of you.
- Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.