



“Kalpataru Power and JMC Projects Q2 FY 2015 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Kalpataru Power and JMC Projects Q2 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: Thank you Margaret. Welcome everyone to Kalpataru Powers and JMC Projects 2Q FY 2015 Earnings Call. The management is being represented by Mr. Ranjit Singh, Managing Director, Mr. Kamal Jain, CFO and JMC Project CFO Mr. Manoj Tulsian. Also we have Mr. Aditya Bafna, Executive Director, Shree Shubham Logistics. 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: Thanks a lot. Good morning everyone. We have declared our Q2 financial year 2015 results for 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 the key highlights of the results and the recent developments that have taken place. Our Q2 financial year 2015 performance has been satisfactory. We have achieved topline growth of 19% and PAT growth of 38% over corresponding quarter of previous year. Core EBITDA has also grown by 14% with margin at 9.1%, which is marginally lower than that of previous year.

KPTL standalone order book levels are comfortable with order backlog of Rs 5,500 Crores, which provides a clear visibility of over 17 months. Our L1 level today stand at Rs 1,600 Crores and we expect a large part of these to get converted in the next two quarters. For the full year we are targeting to have a total order inflow of about Rs 4,000 to Rs 5,000 Crores.

On the portfolio front, T&D continues to be remain our main stake and has contributed 90% plus of our topline. Within T&D, share of international business continues to grow as per our key strategy of greater amount of globalization and today it is contributing about 58% of the T&D turnover. As far as order book is concerned, the share of international business is higher at about two third of the T&D order book.

In infrastructure we had shortfall of both revenues and profits. We expect the pain to continue for another two quarters as we have been talking in previous sessions also and as we restructure and consolidate the business for long-term growth in these promising sectors. Our second transmission line BOOT project at MP is progressing very well. Construction is in full swing. Project is around 85% completed and we are targeting to complete the construction as per the schedule that is the end of the financial year.

In JMC, we continue to follow the strategy of consolidation with greater focus on profitability through better order mix, cost control and efficiency of execution. This has reflected in numbers also, though our sales have declined by about 5% on year-on-year basis our margin continues to improve.

In the first half of the year we have achieved an operating margin improvement of about 100 basis point and we expect to retain this margin level for this year and should improve by upwards of 50-basis point in next year though there would be muted topline growth.

All of our road BOOT projects are progressing well. Rohtak-Bawal project has received full COD from NHAI in October recently. Agra-Aligarh project is partially operating on provisional COD and should receive the COD in the next few weeks. We also are expecting final COD of Nagpur-Wainganga Project very soon. Reva MP Project is also progressing very well with over 55% completion, it is expected to be completed in the first quarter of financial year 2016.

As far as Shree Shubham Logistics is concerned due to business mix rationalization in this quarter our sales have declined by 16% with operating margins at 14.6%. Our current capacity stands at 1.7 million tonnes and is fully utilized. For the year, we expect the growth to be back on track as far as Shree Shubham Logistics is concerned. 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 Madan Gopal from Sundaram Mutual Funds. Please go ahead.

Madan Gopal: Good morning Sir. Congrats on god set of numbers. Just on your order book you said obviously the L1 status is pretty healthy and then probably if you bag even Rs 4,000 Crores you will end the year with same level of order book as you begin this year. So will FY 2016 be a year of slow growth that is the way to look at or you still feel the kind of 20% growth

that we are delivering this year for the first half. Those sorts of numbers are still possible in FY 2016?

Ranjit Singh: As far as our earlier guidance that we have given this year we expect to grow about 12% to 15% and as far as financial year 2016 is concerned we expect the domestic part of the business, which has been under slowdown in past that growth should start kicking in and we should be able to achieve 15% plus growth next year.

Madan Gopal: Sir what is the reason why the order intake in the first half was little muted. Is it we wanted to wait and pick the right set of orders that we went slow, and which is showing now in the L1 or the market itself the down?

Ranjit Singh: Two things which happened because of election certain domestic orders were put on hold because of election code of conduct. So that impacted total order inflow as far as the first quarter was concerned. In second quarter, we have received orders of close to about Rs 1,000 Crores as well as you rightly pointed out we have got a healthy L1 position. So that is one of the major reasons which have been there. The second is obviously we are trying to be more judicious as far as order mix is concerned. So it is not that we are blindly trying to chase the topline. We are looking a profitable growth and that has been our strategy and reason for our success in past and we want to continue the same strategy in future.

Madan Gopal: So you do not see any problem in getting orders with 10% kind of EBITDA margin in the T&D space as of now to fill whatever Rs 4000 Crores order intake target that we have. That is not an issue?

Ranjit Singh: Going forward, I do not think we should have any problem as far this number is concerned. Our order book is healthy and profitability also good as of now.

Madan Gopal: On the Shubham Logistics front you said decline in this is quarter is due to some mix if you can elaborate a bit it will be helpful?

Aditya Bafna: Good morning. Basically we are trying to rationalize our operations at trading level and going towards more focusing on primary processing, so that is why there is a decline of around 16% whereas our warehousing income has grown by over 80% in H1.

Madan Gopal: So what has declined?

- Aditya Bafna:** Trading side, we are trying to rationalize and trying to focus on certain commodities and going towards primary processing and focusing on more value added services.
- Ranjit Singh:** Overall just to add we are following a strategy of consolidation along with growth. So there was rationalization of business being done, streamlining of business being done. At the same time because of the traction that we are having we continue to grow at a very, very fast pace. So primary processing is going to be one of the major mainstays of our business and growth area in future and in that I think Aditya you would like to elaborate the plan that you have in terms of future growth as far as primary processing is concerned.
- Aditya Bafna:** We are setting up one processing plant at Jodhpur, which will cater to all the producing markets of Rajasthan nearby major commodity which are being ported to international markets like groundnut seed, cumin seed, fenugreek and all of these commodities. This plant is going to be operational by February of this financial year and then we can expect good growth on primary processing side also.
- Madan Gopal:** So you have a capacity of 1.7 million tonnes that is what you have mentioned?
- Aditya Bafna:** It is the mix of our owned, hired and long-term arrangement with State Warehousing Corporation.
- Madan Gopal:** But EBITDA margins of 14.6% you see them improving from hereon or these are the levels that we should be looking at?
- Aditya Bafna:** We expect to be in the range of around 15% to 16% by end of the financial year.
- Madan Gopal:** Full year what is the expectation?
- Aditya Bafna:** We expect core income should grow by 15% to 20% and EBITDA in the range of around 70 Crores.
- Madan Gopal:** Thank you so much and wish you best of luck.
- Moderator:** Thank you. The next question is from the line of Kunal Seth from Prabhudas Lilladher. Please go ahead.

Kunal Seth: Good morning Sir. You mentioned that next year we are looking at about 15% growth that is FY 2016 so what will drive that growth because our order book in spite of Rs 5000 Crores in flow will be more or less flat or 5% kind of growth?

Ranjit Singh: As we talked about we have significant amount of traction already in the international business; the international business we have been growing at very, very fast pace 20% plus. It is really domestic T&D business, which has not been growing as per our expectation but in T&D we expect that already some kind of point of inflection as far as domestic business is concerned, I think the key drivers which are going to be there already I think two or three days back the Power Minister has made a statement in terms of large investment in the power sector of about 250 billion dollars. Out of which 50 billion dollars have been in the next five years. Out of which 50 billion dollars has been earmarked for transmission line in the next five years. The second obviously transmission has found its rightful place we believe as far as government policy formulation and focus is concerned. So that is one part which is there. So that will smoothen things quite a lot. Second is as far as funding part if concerned governments initiatives in terms of going for BOOT project are going to solve funding issues to a great extent. In this second half of the year we already going to see Rs 15,000 Crores of BOOT projects being bid for. So that is the second driver which is there and all these projects will come up for implementation next year. Third key driver really we talk about 100 billion dollar going to be invested in the next five years again in renewable energy especially solar energy. Now the preliminary has to be connected to national grid so that be green corridor and some parts of the green corridor already been put up for bidding by PGCIL. That is going to be a third major driver for growth. The fourth major driver is really going to be certainly government has decided on act each policy or they have said very clearly that okay the first initiative is improving the relationship with neighbor especially the SAARC countries and there is going to be a large amount of power exchange which is going to take place between us and the neighbors like Bhutan and Nepal they have got huge hydel potential. So Government of India is also funding large part of this hydel capacity through EXIM Bank and transmission corridor is going to get established. Some part of which was already been announced is already an implementation. In fact right now we are implementing a large project in Bhutan, which is worth about Rs 550 Crores. Last time Mr. Modi went to Bhutan and Nepal and about Rs 1000 Crores worth of projects were announced. So all these projects put together should be driving more than just the national grid power that is concerned. That is connectivity with the neighboring countries, which Sri Lanka also we are already talking to in terms of having a submarine connectivity. Though that is going to take time because it is an expensive proposition but that is also under

consideration. Similarly with Bangladesh we are looking at export of power to Bangladesh and to set up a more reliable transmission system with Bangladesh because Bangladesh about a week back they had a huge crash of the transmission system so overall these four or five factors which are going to drive growth in the domestic market. With our export market and international market order book already quite healthy domestic should pick up and that is why we are quite confident that we should be able to achieve this growth. Apart from that making investments in two major projects new major new business areas one is the railways. Other is pipeline. We expect large amount of traction to be coming from these also.

Kunal Seth: If you can throw some light on how is the competition behaving in both domestic and international market?

Ranjit Singh: There is no significant change as such. It is the competitive world so we have to reckon with the competition which is there but in a lot of project because of fact that we have a first move advantage along with one or two of our competitors because we have been there in this business. So we need the prequalification criteria etc., so the level of competition in many of areas is much, much lower as far as the international market is concerned again domestic market also 765 KV is the level where level of competition is lower and large part of the investment which is going to take place in 765 KV, high voltage area. So this level of competition would continue as it is today. We do not see any significant change and the fact that market is going to grow should also ease out the competition level. So intensity of competition we expect to remain same or to be coming down next year onwards.

Kunal Seth: What would be your guidance for margin at KPTL for this year?

Kamal Jain: Margin we are expecting in the range of the 10%.

Kunal Seth: This is for KPTL FY 2015 right?

Kamal Jain: Yes for KPTL FY 2015 and for JMC at present 6.2% or 6% and we are expecting 0.5% improvement in the second half.

Kunal Seth: 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. In Shubham as I understood and in the kind of utilization that we can see out of the current capacity in Shubham once the rationalization is over. As you said rationalization currently going on in Shubham Logistics, what could be the capacity utilization we can see after the rationalization over?
- Aditya Bafna:** I was talking about rationalization in terms of our trading operations where we are involve in domestic and international trading of various agricultural commodities. As far as warehousing we are already operating at optimal utilization levels and we expect to increase our capacity under our leased model in going forward in other states like Gujarat and Maharashtra, where we believe that we have got great opportunities in terms of exchange business. We are also creating a credit related entity so we plan to increase our capacity in these states and we are already operating at optimal utilization levels. So we do not see any fall in terms of utilization levels in our warehousing segment.
- Sanjeev Panda:** Because of this rationalization as you said your focus is more towards primary processing and all. Does it help in terms of margins towards compared to trading?
- Aditya Bafna:** Yes because this is more related to value addition in terms of increasing the marketability of the product and considering the various regulations, which have come from government side we expect that our margins will improve and the people are now getting more quality conscious so we will see margins also going up in coming year.
- Sanjeev Panda:** In this quarter we saw improvement on the higher side long-term debt. Could you please throw some light in where what have been gone in?
- Aditya Bafna:** That is against the second phase we just completed. So towards second phase and some part we go towards the processing unit which we are setting up it will be operational by January end.
- Sanjeev Panda:** Sir Thane project as you said some part has been leased out. Could you please throw some light like what terms, conditions or what are the rates or how is it?
- Kamal Jain:** I would like to say that around 15% has been leased out approximately 50,000 square feet and the rate is Rs.48 per square feet per month.
- Sanjeev Panda:** Any guidance on the remaining part?

- Kamal Jain:** For remaining part by financial year end we are expecting that certain parts will be leased out further and some might be sold out.
- Sanjeev Panda:** I missed out in the beginning L1 figures. Could you please repeat it?
- Kamal Jain:** L1 figures for Kalpataru is Rs 1,600 Crores.
- Sanjeev Panda:** Thank you Sir. In case I have anything I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Pooja Swamy from Span Capital. Please go ahead.
- Pooja Swamy:** Good morning Sir. Thank you for taking my question. Sir firstly on KPTL the interest cost in the quarter has reduced by Rs 5 Crores in spite of the debt increasing. So what has led to this Sir?
- Kamal Jain:** This was mainly because of in last year we had some foreign currency loss, whereby an impact of the foreign currency gain and loss.
- Pooja Swamy:** So what would be that number Sir in last quarter?
- Kamal Jain:** Last quarter it was I think 8 Crores was foreign currency loss and this time very hardly 1.5 Crores.
- Pooja Swamy:** Sir what is the consolidated debt on the book right now?
- Kamal Jain:** Around Rs 3300 Crores.
- Pooja Swamy:** In Shubham Logistics you were talking something about the Jaipur warehouse. Is this the step which you is it included in the capacity increase, which you had talked about in the last quarter about two lakh tonne is it the same thing?
- Aditya Bafna:** No. Jodhpur one is our processing plant, which we are setting up for various agricultural commodity basically primary processing, grading and stocking. We have already added our capacities in Maharashtra and Madhya Pradesh under our phase II expansion.
- Pooja Swamy:** The two lakh tonne which you are saying that is already done it?

- Aditya Bafna:** 1.5 to 2 lakh metric tonnes. Now in total we are managing right now as on date we are managing 1.7 million metric tonnes and we expect to add additional storage capacity of around 1.5 to 2 lakh metric tonnes in coming quarters that would be complete on a lease model.
- Pooja Swamy:** So you have not yet started that particular which I am saying addition to 1.7 you are expecting it to do it to 2 million tonne right by FY 2016. So no step has been taken in that front?
- Aditya Bafna:** No we are already in process. We are continuously hiring godowns and all. This continuously hiring as and when godowns are getting ready from various vendors. So we are hiring and adding capacity.
- Ranjit Singh:** Just to clarify Aditya's point. We have got two business models one is our own warehouse and the other is hired warehouse. Own warehouse we have decided that we are not going to for the time being expand as far as own warehouse is concerned. Most of the growth will come from leased warehouses. The investment that we have talked about earlier was related to processing and value addition that is the different kind of business all together.
- Aditya Bafna:** This financial year we are going to add additional capacity under lease model in the range of 1.5 to 2 lakh metric tonne and may be next financial year we would be looking to expand with our own infrastructure in few states.
- Pooja Swamy:** That is clear Sir. Last question would you comment something on your new business. So you are expecting in next few quarters to grow significantly so how are you seeing it at present in the KPTL business?
- Ranjit Singh:** Broadly, if you take our international business we have huge amount of traction which we are seeing order book international is quite healthy. Order book in international would be about Rs 3200 Crores that is the kind of thing that we are talking about. Domestic is where we expect something to improve going forward. As far as infra is concerned again our focus is on getting different kind of business. As far as railway is concerned we are going to focus more on S&T, and metro, rail as well as overhead electrification where the level of competition is much lower. So that is broad strategy as far as order mix is concerned.
- Pooja Swamy:** I just wanted your view on this new business that you are seeing some positive response from the market. Are you seeing some order inflows in railways and water?

- Ranjit Singh:** Surely railways I mean we have already see large amount of the DFCC projects are there plus Government of India is talking about large amount of investment and possibly large amount of private participation also in railways. So that is going to throw up large opportunities about modernization railways as far as private modernization railways.
- Pooja Swamy:** Thank you Sir. I will come back.
- Moderator:** Thank you. The next question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.
- Kishan Gupta:** Good morning Sir. Just want to know what would bring about the change in fortunes of infraEPC business next year. You said that the pain would continue for next two quarters. So after that what would bring about the change?
- Ranjit Singh:** Change is what we have today is all legacy projects, which we have entered to in the beginning. So there were strategically priced number one. Number two we were going through a learning curve in these two businesses, I mean in railway business. So that is what led to losses in this business but we have strengthened and reorganized our team. We have got a very strong team now. We are focusing on finishing the older projects out of six old projects five are likely to be finished, completed effectively by December end that is only one project from earlier time. The new projects that we are getting there we are being much more judicious. So the margin levels on this loss project operating margin levels are higher compared to what was in earlier projects plus the execution efficiency also is going to go up. So combination of both better orders better execution and that is how we should be able to improve our margins.
- Kishan Gupta:** Basically could you just elaborate how much higher are the margins in the new projects compared to the older ones?
- Ranjit Singh:** Difficult to say but there would be significant difference. I mean the earlier projects we are making losses as you can see. So it is profitable. So it is significantly different from it depend on project to project but it is significantly different plus number two execution also is going to improve significantly. Both together we should do much better than what we were doing in the past.

Kishan Gupta: Have you at any stage thought about hiving-off this business because I mean one of the infra equipment manufacturer recently decided to sale it's equipment business. So just want to understand is there something that also doing the rounds or not quite?

Ranjit Singh: Railway business is an EPC business for us unlike the other equipment manufactures

Kishan Gupta: So basically you do not have any plan for that right?

Ranjit Singh: No.

Kishan Gupta: Last question on what would be if I see your revenue what is your revenue growth target for JMC this year?

Manoj Tulsian: This year in the first half we have not grown and as we have given the guidelines that we are looking at consolidating our margins and not looking at topline growth to that extend so yearend possibly it will be a flattish year.

Kishan Gupta: So it is like the focus would be more in margins you are saying basically and not an execution?

Manoj Tulsian: Which had been execution will happen but in any case since in the last 1.5 to 2 years we have been slightly more careful about the type order book which we are building and all those. So with the execution plan we do not see that we would be able to grow this year. We had again given a guidance of anything between 0% and 5% now it seems like that it will be flattish this year.

Kishan Gupta: Thank you so much for taking my question. Good luck.

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

Ankita Bora: Sir my question is regarding JMC project. We have seen a sharp improvement in EBITDA margin this quarter, which is the net positive but if you can highlight the key reasons which has driven these kind of margin improvement.

Manoj Tulsian: We have been taking margin improvement for the last 1.5 years and we have also been talking of steps which we have taken in the last 1.5 to 2 years to see that finally we are able to improve on our margins. So it is a culmination of cost rationalization as well as the new

orders which we have taken in the last 1.5 years which has been in execution on a slightly better margin and also slightly taking tough stance on the working capital management. So it is a mix of all the activities.

Ankita Bora: So can we assume that the legacy orders which were typically low margin in nature are all done away with and whatever now you are executing are the recently bagged new orders only with better margins?

Manoj Tulsian: No there are orders already from the legacy also and you know also in this business even if whatever we do the time of taking the orders we might see that we have taken order that are very good rate but there will always be 20% -30% projects where there will be concerns which you know will face only when we walk the process. So there will always be some concerns on some of the projects but however we have become more careful now in terms of doing our estimations and taking some more contingencies I would say building up the contingencies in our estimate itself based on the real time experience and that is helping us.

Ankita Bora: Okay and as there been any claim from clients this quarter?

Manoj Tulsian: No major claims.

Ankita Bora: Second is on your equity requirement that pending for projects under construction, so out of the total how much have been already invested and balance to be invested also if you can give me the cost overruns on projects and regarding that also if you need to put any further equity in the projects due to cost overrun so you can just highlight that number for me?

Manoj Tulsian: We have infused close to around Rs 405 to 410 Crores by the quarter end and with some of the cost overruns which we discussed even in the previous calls it looks like that we might have to invest another Rs 100 Crores so the balance equity portion as well as the cost overruns which we need fund.

Ankita Bora: Including both so total around Rs 500?

Manoj Tulsian: Rs 510-odd Crores is the visibility right now.

Ankita Bora: Sir if you can just now with the Rohtak-Bawal project have achieved 100% COD, if you can just tell me your toll collection on that road and the same is for Agra-Aligarh project also?

- Manoj Tulsian:** On Rohtak-Bawal on the revenue side we are at around 75%, on the traffic side we are higher than that because one of the things which has aggressively hit on the project is also our assumption on the interest cost, which we had taken at around 10.5% post execution, which is today 12% plus that is something which is also having its own burden so our estimations on the interest side has also gone wrong because of the way the interest rates went up in the last 2.5 - 3 years and along with that reduction in traffic compared to our estimation put them together is giving us around 75% revenue against our projections.
- Ankita Bora:** Our initial estimates were around Rs 70-80 Crores kind a number annual number?
- Manoj Tulsian:** No it was close to around Rs 98-100 Crores.
- Ankita Bora:** Okay 75% of that and Agra-Aligarh?
- Manoj Tulsian:** See Agra-Aligarh we have still got partial COD only. The full COD we will receive possibly within this month and then will let you know, initial numbers are good on the project so we are not too much haywire compared to our projections.
- Ankita Bora:** Just one if I can squeeze in, since the toll collection is low, I am sure there would have been a revenue shortfall in these SPVs so would we be require to meet or provide some stop gap funding in the initial years of operation until the traffic and toll revenue numbers get stabilized over a period of time, so would the parent entity be required to support the SPVs in initial years?
- Manoj Tulsian:** Right now we are able to meet it from our own means if need be then we will put the proposal to our board and the parent company board and then we will able to seek.
- Ankita Bora:** So you have not estimated any number for the 4-5 years?
- Manoj Tulsian:** No there were, see even when we projected initially there was some funding initial shortfall funding which was supposed to be met out of our JMC financials only. It was not like you know most of these projects will not break even from first year so there were some loss funding which was to be done and we are slightly higher than that. Right now we are able to meet it from our own means either out of our internal accruals or the borrowed capital so we will see as the time progress.
- Ankita Bora:** That is it from my side. Thank you so much and all the best.

- Moderator:** Thank you. The next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.
- Nirav Shah:** Thank you so much. Most of the questions have been answered. Just one thing on the Rs 100 Crores equity requirement that you mentioned the pending equity requirement, can you just give a breakup between how much is the equity for our under construction project and how much are we providing for losses?
- Manoj Tulsian:** It is a mix of to some extent loss funding plus some cost overrun and the balance equity in our large project so the balance equity in our large project is close to around Rs 50 Crores so the balance Rs 40 Crores is towards cost overrun and loss funding.
- Nirav Shah:** Sir just lastly one the increase in other income, I mean any particular reason do we attribute that too?
- Manoj Tulsian:** In JMC?
- Nirav Shah:** In KPTL standalone
- Kamal Jain:** One is in this quarter there is a dividend payment received from the subsidiary and there is a Rs 4 Crores interest we have received on various refund of the taxes.
- Nirav Shah:** Thanks a lot Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Chinmay Grande from Dalal & Broacha. Please go ahead.
- Chinmay Grande:** Sir your JMC borrowings have been quite high around 700 Crores so could you elaborate on that and what would be your target that as of FY 2015 for JMC?
- Manoj Tulsian:** It has gone up because we have funded around Rs 75 to 80 Crores of BOT projects during the year and we have also done a capex of close to around Rs 38 to 40 Crores so mainly the capital has gone towards both these projects.
- Chinmay Grande:** So and what would be the target debt?
- Manoj Tulsian:** We are looking at another the borrowing will go up by around Rs 70 to 80 Crores from here on so in H2 will increase by another Rs 60-70 Crores.

- Chinmay Grande:** Sir what would be the target debt for Shubham Logistics for the year end?
- Aditya Bafna:** We expect it to be around Rs 400 Crores because there are some repayments are also expected and we expect additional capex of our processing plant at Jodhpur so it will be close to Rs 400 Crores as we were last year.
- Chinmay Grande:** So it would be right now it is roughly 415 Crores?
- Aditya Bafna:** It should be in the range of the same.
- Chinmay Grande:** What would be the sales guidance for Shubham for this year?
- Aditya Bafna:** We are expecting growth of 15% to 20% for the financial year.
- Chinmay Grande:** Even with the subdued H1 we still expect the growth?
- Aditya Bafna:** Good growth in other segment of our warehousing.
- Chinmay Grande:** Sir regarding our transmission business, like when do you expect states to roll out projects and secondly what would primarily drive or what partners could drive into those BOOT projects in the market?
- Ranjit Singh:** Like we have talked about earlier the three or four key drivers we are talking about. Number one state project sub 400 we do not participate in that. So that is the clarification. We participate typically in 400 KV plus projects as far as domestic states are concerned. States these are particularly should be about the states that we work in. We have been very, very active in Tamil Nadu state, in southern states we expect a large amount of investment to coming in but the key drivers of growth as we talked about earlier are going to be BOOT projects of about Rs 50,000 Crores PGCIL which is for the National Grid Investment especially in the bordering states where large amount of transmission lines strengthening is going to take place in Northeast as well as in Kashmir, so that is the another key driver. The third part that we talked about was National Green Corridor which is going to link the renewable energy to the National Grid and the fourth one is in the nearby countries where import and export of power is going to take place with Bhutan, with Nepal, with Bangladesh and with Sri Lanka that will need new corridors to be elected.
- Chinmay Grande:** This year our sales guidance is roughly 15% for standalone?

- Ranjit Singh:** 12% to 15%.
- Chinmay Grande:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Good morning to all. Congratulations for good set of numbers. Just one question Sir related to Kalpataru Power, KPTL we have been seeing some good traction in Infra pipeline, I mean in first half in last year full year we just won around Rs 580 crs business this full year, first half we have won more than Rs 1300 Crores so how do we see I mean this pipeline business and what kind of EBITDA that we have?
- Kamal Jain:** I think the order issued in the pipeline is not to the extent of the Rs 1200 Crores it is only Rs 285 Crores in the first half and secondly the margin is in the line of 7% to 8% in case of pipeline but due to not having the sufficient order so their resources were ideal in case of the pipeline earlier is now will start getting utilized from the third quarter onwards.
- Bharat Sheth:** Okay, so this total Rs 1300 Crores is infra is the balance is on what account?
- Kamal Jain:** Total infra today order book is about Rs 850 Crores.
- Bharat Sheth:** Sir we were talking of bringing down working capital in KPTL to bring down the borrowing so can you throw some light how far we have been really able to achieve?
- Kamal Jain:** What we have said we have been talking that the year end debt level will be around Rs 650 Crores since the order book position has been lower in case of domestic projects advances level has gone down and the debt has remained in the level of 855 Crores. It is expected to be around 650 Crores at the year end. As far as the other working capital, current assets and all is concerned there has been minor reduction only except the debtor, if you see the debtors have not grown up to the extent the growth have taken place.
- Ranjit Singh:** In terms of trade receivables we have been able to reduce it by about 7 to 10 days overall in terms of number of days in metric turnover and as far as plant is concerned that is another area that we are focusing on. Plant inventories we have brought it down significantly. We have reduced it by about 30%.

- Bharat Sheth:** Still we hold the target of bringing borrowings to around Rs 600-650 Crores level?
- Kamal Jain:** Rs 650 Crores level.
- Bharat Sheth:** Sir on JMC side if I have heard correctly that in first half you say we have achieved already EBITDA margin of around 6% and second half we are expecting another half percent improvement is that correct?
- Manoj Tulsian:** Correct.
- Bharat Sheth:** Next year what kind of margin improvement?
- Manoj Tulsian:** See if we are able to get this half a percent in H2 and I think we are on the right track and possibly we will look at another improvement of 50 to 75 basis point next year.
- Bharat Sheth:** Okay, and on this JMC one side our order book is declining whereas that mean we are still investing in capex so this capex is that what nature and how you or we are I mean building I mean our organization for further growth that in future growth?
- Manoj Tulsian:** Order book declining is not a concern. The orders which we have received in the last one year they all need the new capacity shuttering, foam work material so it is an investment which we go into this business even for may be next two years till we have adequate amount of inventory on foam up material. Any new large size project which comes today they have the requirement to work with this aluminium foam work, which means you know there will be a investment of anything between 10 to 20 Crores and above, the large sized project.
- Bharat Sheth:** Sir last one thing on this factory and building, earlier we were earning almost double digit EBITDA margin now which is almost 78% of our order book so how do you see that still are we earning or there also we have seen some decline in the margin?
- Manoj Tulsian:** I do not know, 8% to 10% figure where from you got but yes we are, our margin is better on the factories and building side compared to the infra business and that is what you are seeing also the impact because of better execution on the factories and building side the margins have been improving and we have been talking of further improvement in the margin going forward.

- Bharat Sheth:** Sir further capex how much do we plan for full capex I mean for current year?
- Manoj Tulsian:** For regular capex we hardly had a need of around 6 Crores to 8 Crores now, but there are one or two projects under discussion in pipeline large sized projects if those projects comes then we might have to invest another 30 – 35 Crores by March.
- Bharat Sheth:** That is subject to order receiving correct?
- Manoj Tulsian:** They are large size orders. Discussions are at very advance stage so if they materialize then possibly we will have to invest around 30-35 Crores by March.
- Bharat Sheth:** Sir after this flattish growth in current year in full year FY 2015 what kind of top line growth that do we anticipate next year?
- Manoj Tulsian:** Next year we should be looking at a 10% type growth.
- Bharat Sheth:** Sir on Shubham Logistic side now we have been seeing that there are lot of I mean new government want to bring lot of I mean new private players even on there was article on FCI which is making a huge losses and delivery is also declining so what kind of opportunity we see for leasing I mean FCI godown or CWC godown coming time?
- Aditya Bafna:** We see great opportunities like government is very keen to break FCI also. You must have read in the newspapers so great opportunities will come in the market whether you talk about in terms of the procurement of wheat and rice, paddy or in terms of distribution or storage in various states. As we are growing Shubham State wise State Andhra or various places so right now we see a great opportunities in these four states not only Food Corporation of India stock but also the private market will get opened because in certain state it was more of you know government dependency was there in terms of procurement. We see a great opportunities in terms of procurement as we did in last this first quarter we did lot of procurement for Food Corporation of India, Rajasthan State Warehousing Corporation. So we see great opportunities in terms of storage, procurement and other activities.
- Bharat Sheth:** So currently how much what is the capacity for own godown and lease and going ahead of where do you see next two three years?

- Aditya Bafna:** Currently we are managing around 1.7 million metric tonnes out of which around 5.5 metric tonnes is our own around 7.7 metric tonnes is Rajasthan State Warehousing Corporation which is the long term arrangement with them for 10 years. That is the State Warehousing Corporation owned by RSWC and Government of Rajasthan and rest is a lease model in various states. We expect that we add additional storage capacity of around 1.5 to 2 lakhs metric tonnes in next two quarters and we will grow in the range of 15% to 20% at our warehousing side also. We expect a good growth going forward.
- Bharat Sheth:** Going ahead I mean how do you see a next two three years I mean this mix changing own to leasing?
- Aditya Bafna:** See we would like to now adopt a mix model which will be a mix of assets and owned leased and franchise model which we have introduced and which we are very successful in that. Under phase VI expansion we are going to few more states and with the own model we are going to work under hub and spoke model where it is again our own capacity as well as the, the capacity which is being constructed for us for long term arrangements so we expect that the growth would be very good as we have grown in last few years we expect very good growth in on warehousing side.
- Bharat Sheth:** Future you mean to say that more of addition will happen, capacity addition by way of lease?
- Aditya Bafna:** Lease and owned ones, mix of both. Lease that too also long term lease not for short term, as markets are opening in a big way in terms of exchange business and other government business which is expected to be grown in coming years.
- Bharat Sheth:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.
- Ranjit Shivram:** Sir just a clarification like in the notes the Q2 FY 2014 we had around 12 Crores for forex loss you had mentioned that it was 8 Crores just a clarification on that?
- Kamal Jain:** It may be 12 Crores.

- Ranjit Shivram:** In infra business in last call you mentioned some number for the legacy projects so how many, if you can quantify how many of these of the total order book is legacy now in the infrastructure?
- Kamal Jain:** Overall as far as infra is concerned the total order book today would be about Rs 800 Crores out of which the legacy it will be almost 50%
- Ranjit Shivram:** It will be around 400 crores of legacy projects?
- Kamal Jain:** Yes.
- Ranjit Shivram:** Okay so probably like last call we were expecting some breakeven levels in 4Q so that might also probably get extended to Q1 of next year is that?
- Kamal Jain:** To clarify the opening remark I mean we expect things to breakeven next year.
- Ranjit Shivram:** T&D margins were a bit lower any cause of concern or you see T&DA margins coming in?
- Ranjit Singh:** There is no separate trend as such. It is just the question of quarter to quarter variation which takes place which we have been able to as we as Mr. Jain pointed out earlier we should be able to maintain about 10% plus minus.
- Ranjit Shivram:** Sir your revenue guidance given the first half is a bit lower so that means the second half we can expect some muted growth, is that because we are still maintaining our revenue growth guidance for this year around 12% to 15%?
- Ranjit Singh:** Yes we would prefer to maintain our revenue guidance.
- Ranjit Shivram:** Lastly in that Rs 4000 Crores of total order intake which we are targeting how much will be domestic and how much will be overseas?
- Ranjit Singh:** Difficult to say at this point of time but as far as a large part again would be overseas.
- Ranjit Shivram:** So around 70%, 60% to 70% will be?
- Ranjit Singh:** 60% to 70% will be overseas. Domestic order book position should start improving significantly we expect that to happen next year financial year 2015.

- Ranjit Singh:** But as far as the 70% 67% is the overseas and 33% is the domestic.
- Ranjit Shivram:** This will continue in the order intake also which the 4000 Crores which we have been targeting the ratio will continue?
- Ranjit Singhr:** It should.
- Ranjit Singh:** It can be even 50-50 or it can be 60-40 that will all depend upon the kind of tender.
- Ranjit Singh:** But in long term we expect this kind of a thing to continue to, generally unless TLD starts improving, so major difference that should happen. Quarter-to-quarter is very difficult so we have got 1,600 Crores worth of L1 out of which some of them will be converted in the next quarter, some of them will convert into quarter after that some of them may spill over to next year, so very, very difficult to say on a quarter-to-quarter basis or the year end basis also what exactly will be our order book position. We have very clearly pointed out that we should be in the range of about Rs 6000 Crores. That is what we expect order intake worth Rs 4000 to 5000 Crores that is what we have given a very large band as far as the order intake guidance are concerned because that depends on a whole lot of factors, which are not within our control.
- Ranjit Shivram:** Okay and in terms of revenue mix for the first half what percentage is constituted by overseas?
- Ranjit Singh:** 55%.
- Ranjit Shivram:** This was how much last year first half?
- Ranjit Singh:** First half last year must be around 45%.
- Ranjit Singh:** Two years back we started with about 30% so quarter-on-quarter, year-on-year this has been improving.
- Ranjit Shivram:** Sir one small question, as a follow up of this generally we tend to believe that the overseas orders margins will be better compared to the domestic, so we have not seen any significant improvement in margin. So is that the understanding right or against there is no difference in orders in the domestic margin?

- Ranjit Singh:** There is no significant difference versus the domestic market. Broadly the risk levels in the overseas market we have seen is a little lesser in terms of whatever credit, the contracts are much more fair, much more even so, the trends are much more visible, so to that extent certain risk factors are much, much better in the overseas market compared to domestic market.
- Ranjit Shivram:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Gaurav Shangvi from Bajaj Allianz Life Insurance. Please go ahead.
- Gaurav Sanghavi:** Sir just continuation to the last question you mentioned that legacy order in the infrastructure segment is around 400 Crores. If I remember correctly the number was around 100 to 120 Crores in the last quarter so it has moved up in this quarter?
- Kamal Jain :** No, that is as far as the Railway part is concerned. What we have talked about last time about 150 Crores is Railway part and the other part is a Pipeline, again legacy but legacy does not mean all of legacy is very, very low margin. That is what I want to clarify.
- Gaurav Sanghavi:** So Railway 120? And remaining 280 is from the pipeline? 285 Crores is the total pipeline order book, out of 800 Crores.
- Kamal Jain:** Pipeline is higher.
- Kamal Jain:** Out of 560, 285 Crores is the pipeline.
- Gaurav Sanghavi:** 285 Crores is the pipeline.
- Kamal Jain:** One second I will clarify. Please hold on. 638 is pipeline and 170 is Railways.
- Ranjit Singh:** Total order book infra is about 850 Crores, out of which 650 Crores is approximately pipeline and 200 Crores is railways. The number that you are talking about is as far as the order intake is concerned for the quarter.
- Gaurav Sanghavi:** So, basically total 400 Crores legacy out of which 120 would be in Railway and remaining would be in pipeline?

- Kamal Jain:** Pipeline, but let me again clarify that it does not mean that all the legacy orders are very, very poor state.
- Ranjit Singh:** Legacy orders where we have any problem is only 125 Crores only and that is in Railway only, not in the pipeline.
- Gaurav Sanghavi:** So the pipeline orders would be at EBITDA positive here or would be around after absorbing?
- Kamal Jain:** The moment execution takes place at a full level because lot of orders have been added in the last quarter till that time the whole sources are utilized there will not be improvement. So I think from fourth quarter onwards the pipeline will start giving the positive contribution.
- Gaurav Sanghavi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much Sir. Sir, my first question is pertaining to the debt level at the JMC level. You said about 70 to 80 Crores borrowings will go up by FY 2015 end, so maybe a 600 kind of gross level debt we are talking about by FY 2015. So, is this the peak debt that we are talking of or in FY 2016 is there additional debt that can come through?
- Manoj Tulsian:** Mostly I think it will be the peak debt and it also depends on how the cash accruals are improving on the EPC business. So though there is an improving trend, but it remains to be seen how it fares out in the next four to six quarters.
- Deepak Poddar:** Basically all the kind of investment that we would be doing in the BOT project would be through by FY 2015, the equity portion?
- Manoj Tulsian:** No, it will be going up to June FY 2016, Q1 FY 2016.
- Deepak Poddar:** Q1 FY 2016. So there might be incremental debt that can come from this incremental investment in BOT till June 2015?
- Manoj Tulsian:** Yes, but you know again we will have internal accruals also. So it is very difficult to say that whether that will be done out of internal accruals or it will be fresh borrowings.

- Deepak Poddar:** Sir, my second question is on our BOT projects that if I take a little longer term view that all the four BOT projects have come on stream, then what is the peak revenue that you expect to monetize from your assets?
- Manoj Tulsian:** It will be close to around 175 Crores to 200 Crores in all the four projects to become operational.
- Deepak Poddar:** 175 Crores to 200 Crores and what is the rough range of EBITDA margins that you might expect in all the four projects together?
- Manoj Tulsian:** It is difficult to say right now, but it should be a very high number.
- Deepak Poddar:** A very high number maybe 70% plus kind of margins that one can look at?
- Manoj Tulsian:** Yes. It should be 65% to 70% plus.
- Deepak Poddar:** But then will it be PAT positive at these kind of numbers considering that we also have to service debt which would be close to about 1500 Crores at 12% to 12.5% borrowing cost.
- Manoj Tulsian:** No not initially. All these projects there is always a gestational period of two years, three years depending on the final price which we have got about it so initially I would say next 18 to 24 months we do not see a PAT positive situation.
- Deepak Poddar:** But you would be having some moratorium period in which you would not have to pay the debt in the initial period?
- Manoj Tulsian:** This is a cash flow issue, but you are talking about PAT, then PAT will be negative possibly for the next two years.
- Deepak Poddar:** Next two years and at the JMC level what would be the share of legacy new orders as of now?
- Manoj Tulsian:** It is difficult. We do not monitor that way to be very honest and it is very difficult to put any figure like that.
- Deepak Poddar:** Some sense you can give that at what EBITDA margin we are bidding for the new orders that we are bidding?

- Manoj Tulsian:** There are two ways of looking at it. One is the rates the price at which we bid, second is finally what is delivered. In this business that is very important that at what price it is finally being delivered. So we are looking at upwards of single digit, on the higher side of single digit, but you can see the EBITDA margin today is only at around 6% to 6.5%.
- Deepak Poddar:** So many be bidding might be in the 12% range, but because of executions there might be 8% to 9% kind of EBITDA margins?
- Manoj Tulsian:** 12% is not realistic. We will not get any orders.
- Deepak Poddar:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Amar Singhania from AMSEC. Please go ahead.
- Amar Singhania:** Thank you for taking my question. First just a followup question on the JMC BOT project; as you mentioned that there will be losses in the initial couple of years on these projects whereas we are providing just 40 Crores towards loss and cost overrun at present. So do we think that would be sufficient to take care of these losses on these projects or do we need to provide further or infuse further money in the future on that and what could be the rough quantum growth?
- Manoj Tulsian:** Today our projects are at very different various stages. Project number two Agra Aligarh is still not completed the COD in terms of full rolling. Project III has not yet started rolling also. Project IV is under construction. So it all depends on how first of all we see the initial numbers once the tolling starts in all these projects and then only we will be in a situation to give you some resemblance on the same. It is very difficult right now to put any number. Whatever number we will put will be very different on a quarter-to-quarter basis.
- Amar Singhania:** So even if I just take the example of FY 2015 where at least two projects has been completed and the full COD was not received till yet wherein we have a debt of roughly around Rs 1,000 Crores combining together for these two projects at 12% cost roughly at around 120 Crores is the interest payment itself. So what kind of loss you are looking from these road projects in FY 2015 itself?
- Manoj Tulsian:** It should be closed around 25 Crores odd or 30 Crores.

Amar Singhanian: So roughly around 70 to 80 Crores we are receiving in terms of revenue from these projects?

Manoj Tulsian: That is what we said.

Amar Singhanian: In FY 2015 itself?

Manoj Tulsian: Yes.

Amar Singhanian: The second question is towards Mr. Aditya Bafna. Just wanted to understand a couple of points like we have added capacity by approximately 10% versus last year we were at 1.5% and now we are at 1.7% whereas we are down around 12% in terms of revenue YOY and we are further rationalizing the trading business going forward. So how do we see this 20% growth on topline achieving by doing these things further. We would be further rationalizing and despite that we will be achieving 20% on an annual growth so where do we see that growth coming in from?

Aditya Bafna: In terms of growth in terms of capacity we have already added 2 lakh metric tonnes and we expect additional 2 lakh metric tonnes to be added in the next few quarters.

Manoj Tulsian: In a year's time the 4 lakh has been added. 2 lakhs last year was added just the last quarter only. So it was actually 1.1 or 1.3. 1.1 was in the fourth quarter and then 1.5 was in the first week of April or so. So the real capacity addition has taken place only in the last quarter of year and in the beginning of the year and therefore we are expecting around 12.

Aditya Bafna: Again we are going in a very phased manner where to build the capacity because our complete model is dependent on a hub and spoke model there where is our strength, where are our own ALPs are situated because looking into risk mitigation procedures and everything and also having quality infrastructure. So that is done in a very phased manner, getting good people on board and trying to hire good quality warehouses where we cater to change related business. Again next quarter our focus would be more on NCD driven business, which is more lucrative for us in terms of storage and all where the interests are little bit higher as compared to other places.

Amar Singhanian: Sir, I am still trying to understand like if we compare Q2 versus Q2, we are down at around 16% in terms of topline growth whereas if I compare the capacity Q2 this quarter it was 1.7 and last year it was 1.1.

- Aditya Bafna:** In terms of warehousing growth we have grown over 80% in terms of warehousing numbers. H1 if I compare with last financial year we were at 28 Crores and this year we did around 62 Crores whereas on operating side we are just trying to rationalize in terms of as told you in the past also we are trying to do rationalization in terms of getting into more value added services, processing and all. So you will see good improvement in coming quarters once our plant is also operational at Jodhpur.
- Amar Singhania:** So basically you mean to say basically on the core business you will be growing much higher than 50% to 60% so that we can also mitigate the revenue loss from the reducing of the trading business as well as we will report a 20% growth?
- Aditya Bafna:** We expect a growth in the range of 15% to 20% for this financial year also.
- Amar Singhania:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Arafat Sayed from Quant Capital. Please go ahead.
- Arafat Sayed:** Thanks for taking my question. My question is pertaining to your ordering from PCGIL. Can you throw some light on that Sir?
- Ranjit Singh:** What exactly?
- Arafat Sayed:** I just want to understand your ordering from PGCIL. How it has moved in the recent past and what would be your outlook going ahead?
- Ranjit Singh:** Today as far as our order book is concerned, PGCIL would be about 20% of our total order book.
- Arafat Sayed:** Thanks Sir.
- Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Good morning Sir. Sir, just want to get a little bit more color on this 2Q numbers. I missed your initial remarks. Could you give me a breakup of your execution in this quarter in terms of overseas and domestic and also in terms of the where were growth in these two segments as well as for the revenues?

- Ranjit Singh:** Total revenue has been 55% and domestic is 45%.
- Ranjit Singh:** What was that? You want a breakup between overseas and domestic?
- Aditya Mongia:** I was just trying to get a sense of this 20% YOY growth number which has come in 2Q as well as 1Q. Is it fair to assume that domestic as of now is possibly not contributing anything to this growth and all of this is coming from overseas?
- Ranjit Singh:** That is not right. As far as this quarter is concerned, we have marginal growth as far as domestic is concerned, but bulk of the growth you are right it is coming from overseas. It would be something like 30% that is the kind of growth number.
- Aditya Mongia:** Sure Sir basically domestic is possibly growing close to high single digit?
- Ranjit Singh:** Yes.
- Aditya Mongia:** Second question is on the execution rate of these projects between domestic and overseas? Are they broadly comparable or do you see a fast rate execution rate on the overseas side?
- Ranjit Singh:** It depends on project-to-project. It is very difficult to generalize. So it depends on specific peculiarities of the project. Some of the project like if overseas projects some of them we are doing in Bhutan and places like that, which is difficult terrain. So there probably it should be slower, but we should be do it in the plains the progress will be faster. Similarly some of the cases you know where certain issues like right of the way etc. that come up, that might slow down the project. So it would be unfair to make a generalization about the rate of implementation of the projects.
- Aditya Mongia:** Sir, the last question is around the margins. Although this question has been asked earlier, but 100-basis point sequential decline in margins is it just a quarterly variation as you are suggesting or is it more related to mix changes or anything like that?
- Ranjit Singh:** Nothing, it is not a secular trend. As far as margins are concerned, we expect that the margins would be close to a long-term of about 10%.
- Aditya Mongia:** Thank you Sir. Rest of my questions has been answered.
- Moderator:** Thank you. The next question, which is the last question is from the line of Monami Manna from Quantum Securities. Please go ahead.

Monami Manna: Thank you. Most of my questions have been answered.

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

Bhoomika Nair: Thank you everyone for making time out and attending the call especially the management for answering all our queries. Thank you very much Sir.

Company Speaker: Thank you very much everyone.

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