



# “Kalpataru Power and JMC Projects Q3 Financial Year 2014 Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Kalpataru Power and JMC Projects Q3 FY 2014 Earnings 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. Thank you and over to you Ms. Nair!

**Bhoomika Nair:** Good morning everyone. Welcome to Q3 FY 2014 Earnings Call of Kalpataru Power. The management today is being represented by Mr. Ranjit Singh, Managing Director, Mr. Kamal Jain, CFO and Mr. Manoj Tulsian, CFO, JMC Project. I would like now to 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:** Good morning everyone. This is Ranjit Singh. All of you have seen we have declared Q3 and nine months financial year 2014 results of both KPTL and JMC. The copy of results, press release and presentation has 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 recent developments in this third quarter. For the nine month period, KPTL has achieved a topline growth of 26% due to better execution of both domestic as well as international projects. Core EBITDA has grown by 23% with margins at 9.5% slightly below 9.8% achieved in the corresponding period of last year. PBT has grown by 16% and PAT has grown by 12%. Topline growth is broadly inline with our estimate and we would like to achieve 20% growth in this full year.

As far as transmission business is concerned on the EBIT margin, we have improved by about 60-basis points reached 9.5% versus 8.9% that we achieved in the corresponding period last year. The infrastructure segment that is pipeline and railway continues to remain under the pressure in terms of both revenues and profits. Revenues are impacted mainly due to major cyclone in Odisha and heavy monsoon in eastern region. Here I would like to point out that our large number of projects is located in the eastern region in the states of West Bengal, and Odisha that is why we got affected by very severe rain and general ROW issues also.

The profitability is impacted mainly due to decline in revenues, under-utilization of resources and idling charges. The pain is likely to continue for another two quarters; however, as part of our portfolio diversification and growth strategy, we continue to view infrastructure segment as positively in the long run. Order inflow traction remains intact. We have received orders of Rs 3200 Crores in nine month period, a growth of 45% over corresponding period of last year.

Going forward with current order book in hand and favourably placed orders, we are estimating a topline growth of 20% for financial year 2014 and around 15% for financial year 2015 while

maintaining the core margin in the range of 10%. We have started development process of our second TL BOOT project at MP which we won last year. Financial closure has been achieved. Construction has been started and progressing smoothly. We are expecting to complete the project in next 15 months.

In the nine month period JMC also achieved sales growth of 10% with marginal improvement in margins. Order inflow continues to remain strong in the last nine month period. We have received orders of about Rs 2070 Crores. All of our road BOOT projects are progressing well, and Rohtak-Bawal project has received provisional COD from NHAI. Post that toll collection has started recently.

As far as Agra-Aligarh project is concerned, it will be completed by the end of this financial year. The other two projects will be operational in next financial year.

Shree Shubham Logistics continues to grow. In the nine month period, topline has grown by 44%, core EBITDA has grown by 64% and PAT has grown by 150%. With this broad 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. First question is from the line of Renu Baid from B&K Securities. Please go ahead.

**Renu Baid:** Good morning Sir. I would see it is execution and order intake has been good, but margins are slightly lower. So, just want to understand little more on this side if you can just explain how is the revenue split within the T&D space being for the third quarter especially between the overseas and international and I said because of the mix of execution in the margins QOQ have been slightly lower?

**Ranjit Singh:** Two things as far as topline are concerned as you have very clearly pointed out we are seeing significant growth in topline now. As far as margin is concerned if you look at two segments that we are talking about one is T&D segment and the other one is infrastructure segment. In T&D segment, the EBIT margins have actually improved in nine month period by 60-basis point from 8.9% to 9.5%, so there is some improvement as far as T&D segment is concerned. But where we are taking a hit in terms of margins as well as topline is the infrastructure segment, which consists of railways and pipeline where two or three broad reasons that we talked about earlier. First reason of course, is that as far as railway is concerned these are the projects that we took as the entry strategy so specifically the margins in this project not very high. Second, we got into some execution headwinds in the last six months, because of excessive rain in eastern region and most of the projects located in eastern region. The third reason has been that ROW issues that we have run into in both pipeline as well as railway segment. So these three reasons have led to topline decline as well as pressure on the bottomline. We expect this kind of issues to continue in most of the railway project. We have got about six projects, out of which four projects should be over by middle of this calendar year. So, once

we have done that, there is very little pain which is left anymore and the new projects that we have got in railways are profitable project. So, we expect the infra margins also to improve going forward.

**Renu Baid:** Of the Rs 420 Crores order book that you have for Infra, what is the kind of value of the new infra high margin jobs from railways?

**Ranjit Singh:** Right now, it will be only about 20% or so. Most of the projects, what we are focusing are on very, very niche kind of segments where the margins are going to be better. The second thing that we are looking at where we have got volume as well as reasonable margin where the intensity of competition is lower.

**Renu Baid:** Second thing sir which I wanted to understand was what was the mix of execution in the T&D space and standalone? Essentially to understand that interest cost have remained flat or I would say QOQ have increased despite reduction in debt despite having increase exposure to exports?

**Ranjit Singh:** As far as the overall portfolio is concerned in terms of revenue, if you look at it for the nine months period international is about 50%, T&D that is the domestic is about 47% and other infra business is about 3% that is the nine month period percentage split up. As we have talked in past also, it is a conscious strategy in international business derisk from India and increase business as far as international operational system. In this quarter, if we look at it, international gone to 54% so it is perhaps for the first time that international is contributing more to our topline compared to domestic. The domestic is 42%, others would be 3%.

**Renu Baid:** Despite the change in this mix why is interest cost not coming down, because the cost of borrowing for the export market should be much lower, so why are the interest expenses not reducing, adjusted for forex impact despite reduction in loans?

**Ranjit Singh:** One thing of course is the turnover itself.

**Kamal Jain :** One is the increased activity and the second is the interest rate in the domestic market has definitely gone up by at least 50 to 60-basis points.

**Renu Baid:** So the change in business mix is not helping much to contain the interest cost?

**Kamal Jain :** It has helped and the EBITDA margin has improved by 0.6%.

**Renu Baid:** Generally interest would be below the EBITDA level, right Sir?

**Kamal Jain:** That will be below the EBITDA level.

**Renu Baid:** Just to close and wanted to get back you have maintained 20% sales growth guidance for FY 2014 whereas in nine month have already grown by 26%, so do you expect fourth quarter will just be about 10% sales growth or that is room for positive surprising there?

**Ranjit Singh:** Year-on-year, it will also be flat.

**Renu Baid:** That is good from my side. Thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.

**Sanjeev Panda:** Sir, looking at the JMC improvement, can you throw some light like how for the current year and next year we are looking at?

**Manoj Tulsian:** Good morning, this is Manoj this side. Thank you for your kind words. If you see Q3 we were slightly better in terms of margin for Q3, because normally that is the trend but if you look at overall margin for the year, we should be somewhere around anywhere between 5 and 5.5%, an improvement may be around 40 to 50-basis point over the previous year. Continuing trend, I think next year also our endeavor should be to improve it by another 50-basis to 100-basis points that is how we are looking at. The environment is definitely very challenging, but some of the new orders which we have got, it has come at a better margin, so we are hoping and with amount of extra initiatives which we are taking in terms of process controls and other systems improvement we are hoping to improve the margins by 50-basis points to 100-basis points for the next year.

**Sanjeev Panda:** Sir, regarding the interest component part of thing?

**Manoj Tulsian:** Interest component, if you see this year, we have been able to manage the interest cost in the same level, so there has been very tight control on the working capital during the year; however, we are seeing some signs in the last couple of month where there are signs of delayed payments from the client. So, it remains to be seen, but we are controlling the shift very tightly, so hope that next year also the interest cost may go up by around 10% to 15% from coming year.

**Sanjeev Panda:** Again sorry for repeating the same issue of infra within the KPTL. Margin loss that we have seen as you said that the pain could be there for the next two quarters, could you please help us to understand one reason is that, is that the legacy issue of the old projects that we are holding, because of which it will continue or there are some fresh challenges we are facing and if at all what kind of you know last that we have prepared visible to us or foreseeable to us? **Ranjit Singh:** Two things, number one, the legacy part definitely is there. I mean that is an issue which is there because these are projects we have taken up by as entry strategy for us. So, legacy margins are low, number one. Some execution headwinds that we ran into was particularly I am referring to last quarter where there were significant more rain followed by Odisha cyclone which had significant impact again on the eastern region and

as I said, in railways, our projects are located in West Bengal and Odisha, so both these states got badly affected. So execution headwinds were primarily quarter basis, quarter related, but general ROW issue is always there. That is something which is the business reality today in India, which all of us are overcoming on a day-to-day basis. We expect that will continue.

**Sanjeev Panda:** As you said, two quarters in post that, we should be looking at a positive number?

**Ranjit Singh:** Very difficult to say at this stage, but yes definitely, we should see an improvement.

**Sanjeev Panda:** Thank you. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Chinmay Gandhare from KR Choksey. Please go ahead.

**Chinmay Gandhare:** Good morning Sir. For the quarterly numbers, if I look, your other expenditure has gone up quite a bit. It is almost Rs 137 Crores, so any one off items or anything that is there in it?

**Kamal Jain:** There are two main reasons. One is in case of overseas project, there is agency commission, since the overseas execution is more, so the agency commission has increased by Rs. 25 Crores and the second is the warranty-guarantee provision has been higher by around Rs 20 Crores in these nine months, so because of that there is an impact.

**Chinmay Gandhare:** For the quarter I am saying.

**Kamal Jain:** In quarter itself is around Rs. 10 Crores.

**Chinmay Gandhare:** So far going ahead if the mix is going to be higher on the international side, this kind of higher expenditure is expected to continue or I mean how is it?

**Kamal Jain:** It will be little bit higher only.

**Chinmay Gandhare:** For the quarter, your segmental margins if I look at transmission margins it is like 8.9%, which is like lower side compared to like normally do around 10% odd, so this is primarily because of the higher proportion of international projects that are being executed in the current quarter or is it because like there are few projects in which margins are on the lower side and those got executed in this current quarter?

**Ranjit Singh:** Quarter-to-quarter it is very, very difficult for us to look at the margin part. It depends on the project mix and the execution mix that happened in the quarter, so I would request that you should be looking more at a cumulative figure, YTD figure.

- Chinmay Gandhare:** Going ahead if the international is going to be on the higher side, we expect like 10% kind of segmental margins in the transmission segment or it would be on the lower side like 9%.
- Ranjit Singh:** 10% is a fairly good estimate of long-term.
- Chinmay Gandhare:** Considering the higher proportion of the international mix also. With respect to the interest cost, is there any forex element in that?
- Kamal Jain:** Around Rs 2.5 Crores loss due to forex.
- Chinmay Gandhare:** Rs. 2.5 Crores is the loss or gain?
- Kamal Jain:** It is the loss.
- Chinmay Gandhare:** It is the loss. What is the average cost of borrowing?
- Kamal Jain:** It is around 10.5%.
- Chinmay Gandhare:** So, I mean wasn't the case like I mean during the quarter the average utilizing of loans is on the higher side and as we move to the end and we repay that, because your interest cost as a percentage of your sales or percentage of your debt is quite on the higher side?
- Kamal Jain:** There are two components. One is because of the certain advances are there which are interest bearing and generally the quarter end there will be lower utilization.
- Chinmay Gandhare:** What is the target that we are targeting for standalone debt for the year end?
- Kamal Jain:** Around Rs 550 to 600 Crores.
- Chinmay Gandhare:** So, you expect another like Rs 150 or 100 Crores.
- Kamal Jain:** Rs 150 Crores reduction.
- Chinmay Gandhare:** But would it be like I mean during the quarter the utilization would be on the higher side at the end of the quarter, because as you have just mentioned, the number will go down, so that would be the case, the interest cost would be still continuing at the current rate?
- Kamal Jain:** Interest cost is expected around Rs 30 to 32 Crores.
- Chinmay Gandhare:** For the consolidated, what is debt target towards the end of the year?

- Kamal Jain:** Around Rs 2600 Crores.
- Chinmay Gandhare:** Thank you Sir.
- Moderator:** The next question is from the line of Fetema Pacha from ICICI Prudential. Please go ahead.
- Fetema Pacha:** I just wanted to know we have been seeing that for the last two quarters we have had significant positive surprises that you know the revenue growth flows through the PAT practically and this quarter is an aberration, so just I wanted to understand that because the initial feeling was that as exports grow, the margin expansion will continue and the working capital also will get released, so on average the revenue growth should flow to PAT growth, so is there something that you know there has been a change or is there some execution issue that has come in?
- Ranjit Singh:** No, broadly no changes, I mean as a broad trend, if we look at it what you said is right. Generally, in our international projects the margins have been marginally higher and the capital employed has been lower. So that impact you will see going forward.
- Fetema Pacha:** Q3 is that something this one of, because your segmental margin itself is also lower despite having 54% sales in international. I am just saying that this is the quarter you have 54% sales from exports right? Despite that your margins are actually lower?
- Ranjit Singh:** Yes, within export also there is various projects mix which is there. So same thing they cannot say for all the projects. At a time in exports also we are working about 18 projects right now we are working on, so it all depends on within the project also, there is a significant variation, but broadly what you said is right on average basis if we look at it what you said is right capital employed is lower.
- Fetema Pacha:** Are you seeing any country specific issues that because of which it is getting impacted? Are you seeing any country specific issues where you are operating where suddenly there is some increased cost that you have to incur or they have some currency headwinds?
- Ranjit Singh:** Nothing of that sort.
- Fetema Pacha:** You are not seeing any of that sort. Sir I just wanted to understand the infrastructure initially we had only the pipeline business and I think the intention of buying the JMC was to do all the EPC projects there, so why did we do rails here why not do it in JMC itself, because that subsidiary vis-à-vis was supposed to be pure construction?
- Ranjit Singh:** As far as railway is concerned, there are two parts of railway, one is civil-oriented track laying etc., etc., the other is significantly overhead electrification, signaling and this overhead electrification has got a significant amount of synergy as far as KPTL is concerned.



- Fetema Pacha:** That is why you are doing it here.
- Ranjit Singh:** It is a mix of projects. We have decided to do within KPTL. Ultimately we are expand synergy leverage and synergy KPTL's core business as well as wherever required we will form joint ventures etc.
- Fetema Pacha:** Sir just last question, could you just give your gross debt and cash at the end of Q3?
- Kamal Jain:** Gross debt of Kalpataru Power is Rs 730 Crores and the cash balance is Rs 90 Crores.
- Fetema Pacha:** Despite a higher cash component QOQ other income has fallen is there something is it like may be some advance that you took where you has some forex loss in it?
- Kamal Jain:** No, the other income is reduced mainly because we have received some amount back from the Shubham Logistics.
- Fetema Pacha:** But Shubham Logistics cash would have earned you income right?
- Kamal Jain:** It is inter corporate deposits, so interest on that is other income.
- Fetema Pacha:** Yes, but that cash would have got deployed right.
- Kamal Jain:** That is because at the quarter end certain amount of it has remained in EEFC account.
- Fetema Pacha:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kunal Sheth from Prabhudas Lilladher. Please go ahead.
- Kunal Sheth:** Good morning Sir. Can you throw some light on competition? Are you seeing domestic competition heating up again?
- Ranjit Singh:** Two things, one is as far as transmission line business is concerned, there are a couple of thing which are happening, number one, the pie itself. The way it was going as far as transmission is concerned, they seems to be some kind of drag that we are seeing there, so the growth is not as high. The second is of course that you know the rules of the game have changed slightly in the last couple of years. PGCIL, which used to be major player, their business model itself has changed from assured return to return on equity and more competitive bidding because of IPTC BOOT project etc., so that is one major change which has happened. So, obviously PGCIL has to compete with other players, so one of the major things that we are seeing is that the PGCIL is also trying to increase the competition as far

as the supplier base is concerned. They are looking at new vendors etc. So, that is where we see some kind of increase in intensity of competition as far as transmission business is concerned domestically.

**Kunal Sheth:** On the international side?

**Ranjit Singh:** International side, yes, it varies from country-to-country actually very significantly, so it is very difficult to say. We do not see any specific trend as such from country-to-country variation some countries you find that more number of players are interested and are qualified, some countries lesser numbers of players are interested and qualified. So, it is very difficult to say to make a general statement as international business is concerned.

**Kunal Sheth:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Capital. Please go ahead.

**Bharat Sheth:** Good morning to everyone. I just wanted to know again KPTL infrastructure, all the order book last quarter it was around Rs 460 Crores, which after we have done execution is Rs 28 Crores, so it is around 430 Crores, out of that how much is that legacy which is with negative EBIT margin?

**Ranjit Singh:** Like I said the new projects we received is about 10% to 15% of overall balance.

**Bharat Sheth:** How much is the new order, does it include even what we have received in Q3 also?

**Ranjit Singh:** This is what we tell to you about it was railways, of course pipeline is another business that we have, so most of the new orders that we see is in our pipeline business.

**Bharat Sheth:** Can you give nine months end we have around Rs 750 Crores order book, so how much is railway and how much is infra?

**Ranjit Singh:** Rs 180 Crores would be railways; about Rs 350 Crores would pipeline.

**Bharat Sheth:** So, 180 and 350 we have 750, so around 530 this is coming.

**Ranjit Singh:** I am talking about March 31. So we will be doing execution about Rs. 60- 70 Crores this month. We will get back on the numbers. Rs. 742 Crores, total pipeline railways exact split up I do not have it right now, so we will get back to you on that.

**Bharat Sheth:** How is the margin in pipeline?

**Ranjit Singh:** Pipeline margins are low.

- Bharat Sheth:** But it is positive or still negative I mean?
- Ranjit Singh:** It is depending project to project again. You see pipeline also has some of it legacy business coming from last two years when the competition intensity was severe, which something we talked about last, this thing also that broadly we see some improvement in industry structure which is taking place as far as pipeline business is concerned so we see the margins inching north and people are making more rational kind of bidding compared to what was happening in the last two years. So, again pipeline also will have mix of legacy as well as new business.
- Bharat Sheth:** How are the margins on this new order which we won in Q3 on pipeline?
- Ranjit Singh:** About 3% to 4%.
- Bharat Sheth:** Sir, on JMC side, if you look at I mean our borrowing has increased substantially QOQ see in September and it was around Rs 350 Crores it has gone to Rs 475 Crores, so why borrowing has gone up substantially?
- Manoj Tulsian:** Good morning Bharat ji, this is Manoj Tulsian. You know in our business normally we get lot of payment in the month end. If you see my interest cost it is flat. That clearly is the indication that the borrowings have not been in that level throughout the quarter. So at the end of the quarter, it has gone up one for the reason that we had around Rs 50 to 60 Crores of payment this time which actually spilled over the quarter and we received in the first week, so that is one reason and other than that, yes there are few clients, which I mentioned sometime back also there are instances of delay in payments, which we are seeing in the last two months, so that is putting some pressure on the borrowing plus the investments and the capex, we have also had some payment on capex account in Q3 for some of our new project. So, the combination of all three has resulted in showing you a number of around Rs 475 Crores.
- Bharat Sheth:** So, how much capex we have planned in this year and what is the current investment that we made in our total BOOT project?
- Manoj Tulsian:** In the BOOT projects, we have invested closed to around Rs 300 to 310 Crores.
- Bharat Sheth:** It was almost same at Q2 end?
- Manoj Tulsian:** No, Q2 and I think it was around Rs 275 to 280 if I am not wrong, and what was the other question, on the capex? Capex, we have spent around Rs 50 Crores in the current year and possibly we will be looking at spending another Rs 18 to 20 Crores in this Q4 also.
- Bharat Sheth:** So that we have expanded, I mean earlier we will be looking Rs 40 - 50 Crores?

- Manoj Tulsian:** Our endeavor is that the year-end debt should be around this number.
- Bharat Sheth:** Rs 475 crore
- Manoj Tulsian:** Yes that is our endeavor, but I would say anything between Rs 475 and Rs 500 crore
- Bharat Sheth:** Sir, just can you give some light I mean how is the toll collection on this Rohtak-Bawal?
- Manoj Tulsian:** Rohtak-Bawal as I mentioned last time also, we have actually got the provisional COD. Final COD has still not come. So the numbers become more relevant as you know in any toll project, only once the project get stabilized. So, unless we get the final COD and then we give it a time of minimum six months I would suggest to discuss those numbers at that point of time, **Bharat Sheth:** I just wanted to know get your sense of the traffic, the traffic that which you are expecting is ramping up or that is also not as per what you are...?
- Manoj Tulsian:** That is what I said, this can be discussed as a long discussion, because on that stretch, there are other stretches which has to get completed, so that will make a difference plus there are some parallel roads where there is some traffic movements, so we are working on those things also. So, there are number of factors and that is why it is important that we allow after getting the final COD at least six months for the project to stabilize and then if we discuss the numbers we get a fairly reasonable idea on both sides.
- Bharat Sheth:** JMC tax front, our nine month tax rate is around 12.5%, so where do we see full year?
- Manoj Tulsian:** It should slightly go up, because the profitability normally is slightly better in Q4. I think 12.5% should go up anything around 17% to 17.5% by the year end.
- Bharat Sheth:** Thank you. That is all from my end.
- Moderator:** Thank you. The next question is from the line of Ankita Bora from B&K Securities. Please go ahead.
- Ankita Bora:** Very good morning. My question is regarding JMC Projects. Sir, we have seen improved traction in margins, so going forward, the new projects that we have taken up in the civil construction segment would be typically with what kind of margins and what are the target margins that we look at while bidding for new projects?
- Manoj Tulsian:** Good morning. The margins which we are looking at still on the lower of two digits, looking at the market scenario, so it will be anywhere between 6% and 10%, but then as you know in this business, there are a lot of challenges which we face going forward while execution and that is the one of the reasons that you see that we are at around 5.5%, so that remains to be seen that you know how was the challenges which spans out going forward.

- Ankita Bora:** So the new order inflows that has just come in, so what kind of a visibility do we have for future, so we have already had healthy order inflows for nine months, so going forward, do we have any pipeline in terms of L1 orders or which are the markets then we have seen increasing traction or good demand?
- Manoj Tulsian:** If we will see have a focus on JMC in the last four to six quarters have been to first sustain whatever level of margins we had already dropped down to and then to improve from there. If you see on turnover, the company has already substantially grown in the last two to three years. So, the approach now is to consolidate and improve the margins going forward. So, if you look at that, our order book today is almost 24 months visibility. So, we are slightly becoming more cautious and we are more choosy in terms of getting the new orders. We are not running too much after only the L1 orders because you know there is still that much of competition in the market. Based on our goodwill in performance, we are trying to have negotiate the orders and so may be in the near future you may see some drop in the order position, but that is okay, because we still have two years of visibility which is we feel is quite good.
- Ankita Bora:** So these orders which are coming in the civil construction part are they from our parent company or is it from a third party?
- Manoj Tulsian:** No, they are third party orders. We just got one small order from the parent company, nothing else.
- Ankita Bora:** Have you seen any deterioration in working capital position during the quarter?
- Manoj Tulsian:** I have mentioned that already that last two months for sure, we have seen pressure from some of the good clients and this quarter will be very critical to analyze and see whether they are able to meet up for those whatever money was supposed to come or else we discuss and take drastic steps.
- Ankita Bora:** What would be the working capital days as on date?
- Manoj Tulsian:** If you see in my own way of calculation, it comes to around anything between 90 and 100 days.
- Ankita Bora:** That is it from my side. Thank you very much and wish you all the very best.
- Moderator:** Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Good morning Sir. First on Shubham Logistics, has the revenue declined quarter-on-quarter, because last quarter I believe we did something like Rs 93 Crores which is come down to Rs 73 Crores?
- Kamal Jain:** At the year end what we have projected around Rs 325 Crores, we are likely to achieve Rs 325 Crores at the year end.

- Madan Gopal:** Rs. 325 Crores within 14%, 15% margin is still on?
- Kamal Jain:** 14% EBITDA around.
- Madan Gopal:** Any reason for this decline?
- Kamal Jain:** Sometimes the sales might have not taken place, but overall we have projected for the year end Rs. 325 Crores that is like it could be achieved.
- Madan Gopal:** On JMC you have bagged Rs 880 Crores of orders from residential and commercial. Could you highlight like how was the sector looking like in terms of was it more of private sectors projects or public sector projects where we have taken these orders from?
- Manoj Tulsian:** It is a mix of both actually, so out of this Rs 800 Crores plus order book which we have booked, we will get around Rs 400 Crores of project from the government sector, which is from the health sector and rest of all from the private sector.
- Madan Gopal:** From JMC point of view, it looks like mostly we are getting into only the building side. Is that the other segments are not looking profitable that is why we are keeping away, so if you can give a broader picture on other construction segments, what is your take on that it will be also helpful?
- Manoj Tulsian:** If you really see on the infra side as we have seen in the last two years, there has been quite a bit of competition and the margins definitely are lower in infra projects today compared to our factories and building projects and the challenges are much more and there are lot of external challenges that we are not able to do anything beyond just sitting and watching. Yes, I agree with you. Your observation is right that as a company we have taken that call to go very slow on the infra project unless and until we get something where we can negotiate. We are not really going after L1 projects on infra. Of course on the road side there is not much if you have seen in the last 12 months as it also has dried out, but whatever other sector for sure we are very cautious and if anything is negotiated where we feel that we would be able to protect our margins, we will be looking at those projects.
- Madan Gopal:** Two additional questions on this. One is in the domestic front there are a lot of talks on the mining projects probably on the kind of developmental type of projects coming up in the near future. I know we have not in the past got any orders, but any attempt to try to get qualified in this segment if at all it picks up in the future we might have also participate?
- Manoj Tulsian:** No, we have not yet thought over that. We are strong EPC Company and we are looking at spaces where we already have good amount of experience and exposure.
- Madan Gopal:** Any thoughts on moving globally in the residential construction space or commercial space any thought on those?

- Manoj Tulsian:** See, internationally we have started working on that mainly on the support of our parent company Kalpataru Power and the reason they have vast experience now in different countries and we are using those experiences to look into some of the spaces, but right now we have only got one project on road EPC in Ethiopia. So, unless and until again if we do not see a good amount of margin or something, we would not really be pushing ourselves to take orders.
- Madan Gopal:** So, in the residential segment, we have already bid for some projects found the pricing very competitive and kept away or we are still in the process of getting qualified in these projects?
- Manoj Tulsian:** Residential, we have looked into some of the opportunities which were there, but they were not very exciting. We would say that we have not even bid, in most of the cases and some of the cases actually we have not even bid, in most of the cases because there are opportunities on low cost housing and they are not at all profitable and we see a lot of issues there in terms of approvals and other issues, so we have not been aggressive in that at all.
- Madan Gopal:** Other than residential is there any other segment in domestic looking good Sir, which might turnaround or which we are looking at right now or still we will move with for the remaining period of FY 2014 or so you will still be in residential segment. Is there any segment looking positive?
- Manoj Tulsian:** We have focused on the industrial sector and the residential. As you know right now, the situation in which we are the political crises and everything, there are not too many people who are actually coming out even with the industrial projects, so I think post elections there would be a change in that environment. We are all optimistic. So with the change in that environment possibly we would be able to get some more orders on the industrial side, which is our strength. If you see our strength is on the industrial side and also the factory building side.
- Madan Gopal:** Any reason why the margins in the power transmission business came down in this quarter, I joined late in the calls. Sorry if I am repeating it?
- Ranjit Singh:** As we explained earlier, it is primarily because of project mix with various projects. There is no underlying trend that we see in terms of pressure on margins, but really a question of project mix in a quarter, so you have processed higher margins, lower margins, it depends on the how much execution takes place in which project.
- Madan Gopal:** We were looking at anywhere between 10% and 10.5% kind of margins is it still achievable in your opinion?
- Ranjit Singh:** As far as TLD is concerned, transmission line is concerned, transmission line yes.
- Madan Gopal:** The standalone business?

- Ranjit Singh:** Within standalone we have got two business segments, one is transmission and distribution part, other is infrastructure. The transmission and distribution yes, what you are saying is right we can expect 10% to 10.5%.
- Madan Gopal:** Okay, so the infra may drag the numbers lower?
- Ranjit Singh:** Right.
- Madan Gopal:** So, it will be probably at the standalone level we should be looking at higher single digit probably?
- Ranjit Singh:** Close to 10%.
- Madan Gopal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pooja Swami from Span Capital. Please go ahead.
- Sudhakar:** Good morning. This is Sudhakar here. I had couple of questions. My first question is on Shubham Logistics, you have almost now 1.3 million square feet of area, so what is the plan going into the next year, your plan to go for further expansion or how is it like?
- Kamal Jain:** We have plan for phase III for the next financial year, we might take the call on third phase. We are in the process of finalizing. By February end we should be finalizing the firm plans for next year and then we will be getting back.
- Sudhakar:** Out of your 1.3 million what would be your roughly capacity utilization and just trying to understand what kind of revenue can you generate from this 1.3 million?
- Kamal Jain:** Capacity utilization is around in case of the phase I warehouses it is more than 85% to 90% and newly added warehouses we have around 60% to 65%.
- Sudhakar:** So with this existing capacity revenue of Rs 500 - 600 Crores is possible assuming utilization goes to around 90% to 95%?
- Kamal Jain:** Not the Rs. 500 to 600 Crores revenue. The revenue from rent charged will be lower only, not to the extent of Rs. 500 to 600 Crores, from this case total revenue etc., with the addition of the third phase assets we will let you know later on.
- Sudhakar:** Secondly, if I see your loan figure for Shubham Logistics, the loan has gone up almost by Rs. 100 Crores, so I see that long term borrowing has gone from Rs. 100 Crores in last year to almost Rs. 180 Crores. What would you account this for?



- Kamal Jain:** The loan is around Rs 240 Crores and it has increased by around Rs 90 Crores mainly because of the second phase investment.
- Sudhakar:** How much is that investment, how much was that?
- Kamal Jain:** It was around Rs 160 Crores.
- Ranjit Singh:** One thing I would just to intervene that Mr Aditya Bafna, who is running our Shubham Logistic business, he was supposed to join us. Unfortunately last moment some emergency was there, that is why he could not join us the meeting, so Mr. Jain is definitely would answer your query, but what I would suggest is that general question, yes we can answer, but any detailed specific questions that you have, you can send it across and we will organize a meeting with you and explain all the issues as such.
- Sudhakar:** Then probably I will move to your main business. My second question is on your BOT project what has been the total investment as of date in your four road project and have you committed the entire equity part?
- Manoj Tulsian:** So, our total investment till date is Rs 300 to 310 Crores, other Rs 100 - 110 Crores to be invested.
- Sudhakar:** So that Rs 100 Crores would be a mix of debt and equity right?
- Manoj Tulsian:** No, Rs 110 Crores what we are talking is the equity portion.
- Sudhakar:** Okay, so Rs 300 Crores has been your equity investment in all those BOOT projects?
- Manoj Tulsian:** That is right.
- Sudhakar:** Okay and what is the progress? I see from your presentation that almost 80% to 85% work has been completed in two of the road projects and 30% in that fourth one, so are these on target or are you facing any delays in construction?
- Manoj Tulsian:** Fortunately till date, we are ahead of target. Our first project also got completed ahead of target. The next two projects, one which will be actually we are almost in the verge of applying for the provisional COD and if everything goes well, we would be looking at starting the tolling any time in may be March, right, but yet there are election time also, so we have to see the environment also, but otherwise in terms of the progress of the project, we are ahead of schedule, so even the third project right now we are ahead of schedule.

- Sudhakar:** Just to understand when all these four projects are ready let us assume in by FY 2015, FY 2016 you will have full benefit of all these four projects. So, in FY 2016 can this road project contribute around Rs 350 or 400 Crores your topline, is that possible, is that number?
- Manoj Tulsian:** No.
- Sudhakar:** So, what is your best case estimate in for all these four projects?
- Manoj Tulsian:** That is one of time I think after all the four projects become operational we should be close to around Rs 200 - 225 Crores.
- Sudhakar:** What kind of EBITDA can these businesses generate for you on Rs 200 Crores of revenue?
- Manoj Tulsian:** The EBITDA percentage, this is very high, but the interest component also you know is very high, so the EBITDA we have to see, but I think it should be close to around may be even 50% plus, may be around 60%, 65%, but the interest component is also very high in this project initially.
- Sudhakar:** Precisely, my question is that once this road projects are operational, would have negative impact on your Kalpataru business, the EPC business. What I am trying to guess, let assuming even if Kalpataru and JMC business show some growth the overall loss on this BOOT projects may impact your consolidated numbers?
- Manoj Tulsian:** Yes, it can, it depends, still two years to go and lot depends on how the growth takes place in the next two years, but to answer your question if you really see, if these are showing lost initially it may have some impacted on the Kalpataru overall balance sheet, but the balance sheet size is so big, so we are not sure how much it will reflect. I will request may be Kamal Ji to throw some more light on this.
- Kamal Jain:** As far as debt is concerned, there will be consolidated debt around Rs 2600 Crores otherwise there will not be having much impact on the overall balance sheet.
- Sudhakar:** The point I am trying to make the loss in this BOT projects may impact your overall P&L that is my point?
- Manoj Tulsian:** At the consol level yes.
- Sudhakar:** Any progress on the Thane project? You had plans of monetizing it any progress on that?
- Ranjit Singh:** No, the project is ready for sale and lease and we have got all the permissions etc. We are negotiating with various parties, but there is no developmental report as of now. We expect developments to take place in the next three month as and when these developments take place, we will get in back.

- Sudhakar:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Ankit Babel from Shubham Ventures. Please go ahead.
- Ankit Babel:** Good morning. In your earlier remarks you mentioned that there has been some changes in the business model of PowerGrid wherein they would be setting up their own lines the assured return is not guaranteed. I just wanted to understand it, are you saying the PowerGrid will be going for backward integration and would not be selling out orders to the contractors like you?
- Ranjit Singh:** I did not mean that. See if you look at it earlier, PowerGrid was the central transmission utility and the business model that they had was assured return of 15.5% return on equity which was kind of show to them as long as they could show it competitive bidding. So to that extent it was assured return model like so many other models which are there. Last three or four years, the whole sector has got liberalized, so apart from certain things which reserved for in a way for PowerGrid the competitive bidding has been independent power transmission companies can also bid, so private sectors can also bid in this which means from a fixed return model, it becomes a competitive bid model, so that is the business model change of PGCIL PowerGrid that we are talking about.
- Ankit Babel:** But in that case suppose you also bid for a project, so then PowerGrid has to subcontract the transmission line setting up contractor like you they will never be able to compete with you, because you will add up your margins until and unless PowerGrid goes for backward integration. I am just trying to understand how PowerGrid will be able to compete with you people and if he is not able to compete then they might go for backward integration and might not give orders to you people?
- Ranjit Singh:** I do not think they would ever get into EPC business, so in that something which is not their business domain or area of competency, I do not think they will get in there.
- Ankit Babel:** But then how will they compete like suppose there is one project where in PowerGrid also bids and Kalpataru is also bids, if PowerGrid has to subcontract the EPC part then to you suppose, then they will never be able to compete with you?
- Ranjit Singh:** Two things, number one, there are various sizes of projects which vary around Rs 100 Crores, to about Rs. 400 Crores, which is where we focus and the projects which are Rs. 1000 Crores plus. the competitive space in which we are going to focus on are sweet spot really is about Rs 200 to 400 Crores project. We do not want be, right now looking at Rs 1000 Crores project whereas PGCIL is definitely present. So that is one part which is there. So, the space, we compete in is limited . . . Second whenever we are bidding, we are bidding as an EPC and then we have got a developer's role, so it is a arm's length kind of transaction, so we do proper transfer pricing etc., so the fact that we do

integrate it ultimately, an EPC business is also want return and as a developer also want to return, so I do not see PowerGrid significantly not competing or not being compared to us.

**Ankit Babel:** But definitely it will reduce the size of the opportunity which was earlier envisaged let us say suppose Rs. 20,000 Crores of PowerGrid capex every year, out of that whatever would you have been the opportunity, the size of the opportunity will reduce?

**Ranjit Singh:** As far as PGCIL is concerned, but ultimately the case remains same. There will be other independent developers who become EPC contractor. So, as far as EPC contractor is concerned, total pie of the market remains same.

**Ankit Babel:** So, going forward should we assume that Kalpataru might also bid for BOT projects in transmission lines projects?

**Ranjit Singh:** We have operational BOT project in Haryana. This year also we won one BOT Project in Madhya Pradesh, but these are again projects which are Rs 300 to 400 Crores range.

**Ankit Babel:** So, any project which is below Rs 500 crore you might bid in a BOT form, beyond that you won't bid?

**Ranjit Singh:** No, we cannot say that. We could as of now, a sweet spot is this, but we could get into joint venture, we could get into partnership etc., and bid for larger projects also, so I am not ruling that out. As of now, what we have focused on is Rs 300 to 500 Crores kind of projects, because obviously this is a new business for us and we would like to trade cautiously as far as business is concerned.

**Ankit Babel:** But any joint ventures which you plan would be in a ratio of 51:49 win-win majority or you will plan to have a minority stake so that you do not consolidate it?

**Ranjit Singh:** It is too early to say all that. We are still looking at the whole thing. This is a major development which has taken place. One thing we have decided is let us focus on it. We are looking at various opportunities, number one as EPC contractor, number two as a developer as far as EPC contract is concerned, our total pie does not free, because it just goes to PGCIL to some other private bidder. So, this change is not going to reduce the case. What has had impact is basically, because power sector, new capacities are not coming up, so there is no need for evacuation and that is why it may have impacted the overall demand for transmission line, but this change per se has not impacted anything, it has just shift from PGCIL to some other contractor, to some other developer and we remain a EPC contractor, so that is one part.

**Moderator:** Thank you so much. The next question is from the line of Ajay Sheth from Quest. Please go ahead.

- Ajay Sheth:** Good morning Mr. Ranjit Singh. Just a small question for a nine months period for Kalpataru Power on turnover of Rs 138 Crores we had loss of Rs 36 Crores in Infra segment. Now we have around infrastructure projects worth Rs 400 Crores to be executed and if I understood correctly you said over a next three quarters this will be executed one quarter in this year and probably one or two more quarters next year. What kind of loss, are we seeing on this execution?
- Ranjit Singh:** This we would like to say again, but we do not have that kind of visibility right now. We are in the process of analyzing the whole thing and we will come back to you probably next month.
- Ajay Sheth:** Whatever the losses are for whatever reasons in your opinion by September next year, those will be over?
- Ranjit Singh:** Most of it will be over as far as railway project is concerned and railway project will be left over which will carry on until middle of next year.
- Ajay Sheth:** I mean the majority of them will be by September next year will be over isn't it?
- Ranjit Singh:** Yes.
- Ajay Sheth:** I appreciate it. Thank you.
- Moderator:** Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Thanks for taking the follow up question. On the BOT side, you said Rs 225 Crores of total revenue, is there any of the project having revenue premium payment commitment on this amount is after that or before in all that.
- Kamal Jain:** No, this is what we are talking is gross collection. It has certain projects where there are premiums.
- Madan Gopal:** Can you tell us what is the starting premium amount for the total?
- Kamal Jain:** We have different premiums, but if you see all the four projects together and we will have a premium of close to around Rs 40 Crores annually.
- Madan Gopal:** You said peak debt would be Rs 2600 Crores right for BOT put together?
- Kamal Jain:** No, that what we have mentioned.
- Manoj Tulsian:** Rs. 2600 Crores what we said is the consolidated debt for the Kalpataru.

- Madan Gopal:** But BOT per se how much debt you expect once the four projects are completed?
- Manoj Tulsian:** When all the four projects are completed, the BOT debt would be close to around Rs 1500 Crores.
- Madan Gopal:** The current borrowing cost would be around 12%?
- Manoj Tulsian:** Different, but yes you can say high as 12%, 12.5%.
- Madan Gopal:** Once the commissioning is over, you will get some 50-basis points reduction, because of completion?
- Ranjit Singh:** It depends first of all, they have four projects which are going to complete in different point of time, lot depends on the environment, it can be 50-basis points, it can be even 100-basis points, but that remains to be seen. It partly depends significantly on interest rate cycle which is very different.
- Madan Gopal:** That I understand, but generally the companies get an on the completion date they get banks generally restructure the loan to a lower since the construction business is done with?
- Ranjit Singh:** You are absolutely right, but broadly also it depends on the overall interest rate cycle.
- Madan Gopal:** That I agree that it will be different. Like the way we are facing some issues in the first project Rohtak-Bawal, are you envisaging any such issues in the remaining three projects are particularly say Agra-Aligarh which is likely to be completed in next quarter?
- Ranjit Singh:** We have not mentioned that we are facing any issues per se in the project. We have already applied for the provisional CODs, so that the tolling start and we start getting the benefit of early completion of the project. The final COD is still awaited for some reasons, but there are no issues per se in the first project and accordingly in the balance project also we are tiding one of the same strategy to use the maximum benefit of the provisional COD clause and start early tolling because the projects, so the only way remunerate ourselves is to tolling based on getting a provisional COD. In all our core projects we are looking and with that the best opportunity because the projects as we said that it is completing before our target, so the only way to remunerate ourselves is to start tolling, right, so in all our four projects we are looking at early completion and with that the best opportunity to start the tolling based on getting a provisional COD.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Manoj Ji. That on this BOT project, what kind of ROI that we are looking I mean with current situation?

- Manoj Tulsian:** We were looking at anything which will 12% to 14%, right that is what was our estimation, but the way things are and as you also understand that last two years is nothing in terms of growth from the economy side, the traffic have grown nor there has been growth on the automobile sectors, so possibly we will have to relook at it and lot more again depends, because when we are talking up two years, three years visibility a lot more depends on what government we see in the next four to five months in the election what type of initiative to take and how do the entire growth parameter changes.
- Bharat Sheth:** Last question, are we in initially as you said there will be definitely loss, but would it be there cash loss, it will be at?
- Manoj Tulsian:** Well, there can be case of cash loss also initially, because last two years estimation which we are seeing and we are talking to even other players we are finding that most of the stages the growth has been minimal or zero. So that puts a lot of pressure on the projects initially, but since we have projects with those 1 is something which again we would like to reiterate, trade as all of us know with significantly correlated with the state of the economy, the basic, so with the projections of below 5% etc, etc growth rate, obviously is going to impact the trade segment how much too early for us to re-predict and that is what Manoj was saying that though we have started the Rohtak-Bawal, it is too early for us to make any projection, it is just got commission right now, so we will know about it very, very soon. If the economy revises, which will very, very hopeful in the next couple of years, I think we have got a bottom. The economy revise obviously the traffic will go up and we should be back to normal. So, over long run we do not see any problem, short term, year-to-year, quarter-to-quarter they could be impact.
- Bharat Sheth:** Thank you.
- Moderator:** Thank you. Last question is from the line of Swarnim Maheshwari from Edelweiss. Please go ahead.
- Swarnim Maheshwari:** Hi sir good morning, I just wanted to understand how is the traction in the SEBs market?
- Ranjit Singh:** It is good....Especially we have seen significant amount of traction in transmission sector in southern states in Andhra, also in Tamil Nadu.
- Swarnim Maheshwari:** FY 2015 order intake growth would be completely or like predominant driven by the international markets or the domestic markets, because PGCIL will be sort of flat ordering with SEBs may be major one or two SEBs may be ordering out, otherwise the growth has gone up these from the international site.
- Ranjit Singh:** Yes.
- Swarnim Maheshwari:** Thank you.

**Moderator:** Ladies and gentlemen, due to time constraints 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 being on the call especially the management for taking time out and addressing all our queries. Thank you very much Sir.

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