



Kalpataru Power Transmission Ltd
and
JMC Projects Ltd.

Q2FY13 Results Conference Call

November 1, 2012



MODERATORS:

Mr. Manish Mohnot – *Executive Director*

Mr. Kamal Jain – *President & CFO*

Ms Bhoomika Nair – *IDFC Securities Limited*

- Moderator:** Ladies and gentlemen, good day, and welcome to the Kalpataru Power Transmission Ltd and JMC Projects Ltd Q2FY13 Conference Call hosted by IDFC Securities Ltd. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Ms. Bhoomika Nair, IDFC Securities Ltd., thank you and over to you.
- Bhoomika Nair:** Good afternoon everyone, welcome to the post results conference call. The management is being represented by Mr. Manish Mohnot – Executive Director and Mr. Kamal Jain – President and CFO. I would now like to hand over the call to the management for the initial remarks, post which we will open the floor for Q&A. Over to you Sir.
- Manish Mohnot:** Thank you Bhoomika, good afternoon everyone. We have declared our results for quarter 2, KPTL and JMC yesterday, and I am sure all of you would have seen the results and the press release. We have also circulated a presentation with some of the critical data points, which would be important from an analysts' perspective. If you look at the results in Kalpataru we have achieved sales growth of around 22%, which is what we had planned for, so it is line with our projections. On the margins front, in Kalpataru we are slightly below our expectations for the quarter. We would have wanted it to be slightly higher, but it is still being closer to 9% at operating level, but while this quarter has been at 9%, on an annualized basis we are still targeting operating margins in the range of 10%. From execution perspective we are confident that we have projected a growth of 15 to 20% on KPTL standalone would definitely be achieved. If you look at the numbers of JMC, while the top line has grown at 40%, which is much better than what was planned, we have had our challenges in terms of margins, primarily coming out of increase in fuel cost, and volatility in a few materials used for construction, sand aggregates and a few others. We will get into those discussions a bit later . If you look at one of our subsidiaries, Shubham, we have done well, top line has grown by 20% and we are on track to achieve our targeted numbers there. From an order book perspective, our consol order book of around Rs 11,300 crores excluding the L1s, keeps us in a very good position today. We are carrying an order book of more than two years while we speak, and we believe that we will have no major challenges than in having a better order book going forward. Last few quarters there has also been a big change in the composition of order books, we have secured some big contracts from Power Grid Corporations and so accordingly the composition of order books of PGCIL verses SEBs and some others have changed significantly. We are also favorably placed in six or seven orders while we speak, although we will not quantify those as a matter of policy, but including four or five large

international orders, which should all be coming in the next two or three months. If you look at our BOOT projects, primarily in roads and transmission; in transmission our revenues have started in March itself and for the quarter we have got the full revenue closer to Rs 14 crores. On the road BOOT projects all our four projects have achieved financial closure, the last one had happened last quarter itself. Three of them are in track as far as the execution is concerned, and one of them, the biggest one, Rohtak-Bawal, we should see it being completed by March 2013, and you will see revenues coming from the first quarter of next year, and other projects are on track and should all be getting completed sometime in 2013-14. Our Raipur plant, the new plant, which we had planned is on track, and we have already started the fabrication process there, and commercial operations should start in the next four to six weeks. With this I would like to open the floor for any question and answer sessions.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We have the first question from the line of Renu Baid from B&K Securities. Please go ahead.

Renu Baid: Sir, top line has been very strong, but margins are indeed disappointing. When you mentioned it was below your expectations as well, Sir, if you could firstly elaborate on why margins in Kalpataru were lower. What led to slightly lower margins than what you were expecting? Was it revenue mix or certain cost, or profit not been booked?

Manish Mohnot: Renu, I think this, I was expecting this as a first question. To be very frank, our margin projections for the current year, if you remember the first analysts call, were all in the range of 10 % itself. Right, so we are not benchmarking against what happened in the previous year and the year before that.

Renu Baid: Right, sequentially, even if you look at that.

Manish Mohnot: Right, a couple of things, which have impacted us in the current quarter as far as margins are concerned: 1) which is the impact, which would have happened to a lot of people in the industry, is the steel increase, the steel price increase has not been caught up by the **IEEMA** index price increase. So on steel supply, a lot of people including Kalpataru have lost or have not made any money in the previous quarter. Now this has been a challenge for us for the last two quarters, it has not been only this quarter, the first quarter we had a similar challenge and the second quarter the challenge continued. Is it going to improve? The answer is yes, We are seeing some softening of steel prices and we are hoping that the indexes should not go down with the softening. It is a hope that there should not be a larger hit coming out of that in the future, but it is a hope, right. That was the first thing. 2) As you rightly said, you know, if you go back to history, previous year, right, a lot of us with 17 to 18 players bidding at Power Grid at various places across India, a lot of us took orders, which were not like very healthy margins, yes, they had

margins, but with any delays, that margins would have got reduced or whatever else. Today the current environment, all projects you are seeing some delay, although there are no projects which are stuck, but that is why you see again a hit on margins. So, if you ask me, it is a combination of two things, one is the raw material volatility in steel, and second is, the old projects, which are all at the verge of closure where you are seeing some margin reduction. As I started the conference saying that, we still are aiming for the double digit, in the range of double digit by the year end.

Renu Baid: So you mentioned in terms of the orders being delayed, so these are specifically from SEB clients or from Power Grid, which particular segment are we seeing these delays.

Manish Mohnot: No, no, I did not say orders being delayed, these are orders where we are L1, and it is in the process of getting awarded.

Renu Baid: No, no, I am talking from the perspective of margins. Because these orders were taking relatively comparative margins and execution has been delayed.

Manish Mohnot: It is across Renu, it is across Power Grid, across SEBs, it is across every project we are doing today, at least in the Indian environment, for reasons known to all of us. At some places it is environment, at some places it is forest, at some places it is something else.

Renu Baid: Okay, but Sir, broadly how was the revenue mix in the T&D in the current quarter or the first half to have a more clearer perspective on the executions.

Manish Mohnot: From a T&D where international and domestic perspective right.

Renu Baid: International, domestic, and probably if you can also throw how the DMS and other segments.

Manish Mohnot: As far as we are concerned, DMS is right now closer to being zero, right, our total revenue on DMS might some a few Rs 10 to 12 crores, right, because we don't have any orders except for one of DMS right now. If you look at the balance on T&D, it is equally divided between international and domestic. Domestic is closer to 55%, international would be around 40 to 45%.

Renu Baid: I think that should be through, just one more question, if you could give a perspective on JMC as well, because in the opening remarks you said, you will come back, as the margins have been similar to last quarter. Do you think your guidance of 5 to 6% is achievable or there could be head winds to that as well?

Manish Mohnot: I think, we still continue to be confident of achieving this 5 to 6% guidance. Quarter 3 and 4 typically in this contracting business are much better quarters on all sets, whether it is top line or revenue, or profits, any of them. So, we still are aiming from 5 to 6% , it does not look like crossing 6%, but more in the range of 5% to 6%.

Renu Baid: So that will imply in second half, close to 7% margins can be expected.

Manish Mohnot: Close to 6.5% plus.

Renu Baid: Okay, and what will drive this margin improvement over first half because cost pressure remain the way they are, so where will this incremental margin improvement come in the second half.

Manish Mohnot: Three or four key things, one, in the last six to twelve months we have focused a lot more on JMC on variable price orders. Today our fixed price orders in JMC would be less than 20%, the exposure on fixed price contracts would be less 20%. So a lot of focus is on variable prices, so that volatility on raw materials, you know, which is being a major issue in the last three and four quarters, is something which we would be avoiding in at least for the current order book, not completely avoiding, but significantly avoiding, that is one, and second with, you know, the kind of orders, which we booked in the last nine to twelve months, the old orders, which had low margins are all drying up. We believe that there should be better margins. Third, again very important, from a productivity perspective, there has been a significant improvement in terms of, you know, the entire growth has happened without actually increasing your salary cost, and employee base, and the positive impact of all of this you will see in the next two quarters.

Renu Baid: Okay, potentially that should help us across.

Manish Mohnot: Yes, but still in the range of 5% to 6%, we are not going beyond that.

Renu Baid: Sir, I think that is good from my side to begin with. I can get back to you if I have more queries.

Moderator: The next question is from the line of Supriya Subramaniam from Kotak Securities. Please go ahead.

S. Subramaniam: Yes sir, just a couple of questions on what is your outlook now, in terms of the order inflows, if you could give us a flavor of both the domestic as well as international markets, and in this line itself, in 1Q conference call, you had shared that, you know, you were L1 in two international orders, and you all expected it to come in this quarter. So, what is the status of those two orders?

- Manish Mohnot:** While we speak today, we are L1 in six orders, right, which is a mix of international and domestic. It is a significant size in terms of value, but given that we have decided not to disclose that, I am not being able to disclose value. Out of the six, four are international and two are in India. We expect all of this to come definitely before, I would say, 31st December, if not before 30th November. Three out of them should come within the next one week, one to two weeks, and there are three more, which we just become L1 a few weeks ago, and you know, the process typically takes 60 to 90 days, so by December, we expect that. Your first question on outlook for order book, I think we are very confident of having a very decent order flow in the next two quarters, and we expect that at the end of the quarter, we still would have orders in excess of a 24-month visibility by the year end.
- S. Subramaniam:** My next question is just a small book keeping question in terms of equity invested in the BOT projects and what is the remaining equity yet to be invested.
- Manish Mohnot:** This you are talking about is the road BOT, right.
- S. Subramaniam:** Yes the road BOTs.
- Manish Mohnot:** Our total requirement of equity in road BOT is around Rs 400 crores. We have invested closer to Rs 190 crores while we speak, mind it could be a few crores plus or minus. The balance Rs 200 crores which needs to be invested over the next 18 months, out of which closer to Rs 50 crores would be invested in the next 6 months and the balance next year.
- S. Subramaniam:** Sure sir, so that's it from my end. If I have any more questions, I will get back.
- Moderator:** The next question is from the line of Anubhav Gupta from Maybank, please go ahead.
- Anubhav Gupta:** Was there any FOREX component in Q2 results of Kalpataru?
- Manish Mohnot:** There is a small component closer to Rs 2 crores which is savings in the finance cost, slightly less than Rs 2 crores, so if you look at the finance cost, it includes that benefit of closure Rs 2 crores for the quarter.
- Anubhav Gupta:** Right and what was the total order inflow for transmission orders in the first half?
- Manish Mohnot:** In the first half our order inflows have been closer to Rs 600 crores and primarily coming out of Power Grid.
- Anubhav Gupta:** Transmission business has current backlog of around Rs 55 billion, right.

- Manish Mohnot:** Yes.
- Anubhav Gupta:** How much Power Grid order account in that.
- Manish Mohnot:** If you look at the Rs 55 billion, it gets divided into transmission domestic and international, so transmission and international is both 50% out of the transmission order book. Out of the domestic today Power Grid would be closer to 75%.
- Anubhav Gupta:** Okay, right, if we remove this gain of Rs 2 crores, the FOREX gain, the interest cost stands at Rs 28 crores almost.
- Manish Mohnot:** Sorry.
- Anubhav Gupta:** If we remove this gain of Rs 2 crores, the FOREX gain, interest cost stands at Rs 28 crores.
- Manish Mohnot:** Closer to Rs 28 crores, perfect.
- Anubhav Gupta:** Is that not high because your debt hasn't increased, if you look at your balance sheet.
- Manish Mohnot:** I thought our debt levels have also gone up, that is at least what my understanding is because if you look at short term and long term both, debt levels have gone up for the last six months. We believe this is what, is within whatever we had targeted, we are very close to that as far as interest costs are concerned.
- Anubhav Gupta:** Okay thanks.
- Moderator:** The next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.
- Sanjeev Panda:** Sir, just to understand the margin scenario that you expect, the next half would be better off in transmission business what you are talking about, what are the things that make you understand or make you believe that this is going to be 10 plus percentage margin that we can achieve.
- Manish Mohnot:** Three specific components: 1) is the order book which we have, right, so the composition of the order book, we exactly know how we have bid, what the cost is, and what is it we are going to execute in the next six months. The second is volumes, typically if you look at the transmission business, the next two quarters in terms of volumes is closer to 60% of what you do in the first six months, or if the first six months is 40%, the next six months are typically 60%. Volume going up, your productivity in terms of recovery of overheads and all of that also typically show improvement, that is the second. The third is, a

significant component of international revenue coming in out of projects which we have just won in the last quarter of the previous year, where revenues would start from quarter 3 onwards. If you remember last year quarter 4, we had declared a few large orders including one Congo order which was closer to Rs 900 crores, so those executions would start from this quarter onwards. You know, quarter 3 because it takes typically six months for you to actually start getting revenue. A combination of these three gives us, you know, the confidence of achieving what we had planned.

Sanjeev Panda: Okay. Also Sir, we saw that other expenses, which is rising significantly. What are they actually driving in cost structure?

Manish Mohnot: One is a lot of freight and forwarding cost have , because our international revenue has increased significantly if you compare YOY or QOQ, so a lot of expenses on freight and forwarding, which comes in there. Second, it is in the normal nature of commissions and all of that, right. But otherwise it is all within our budgeted controls.

Sanjeev Panda: Okay, and also we sort of saw within the segmental reporting, I think if I am not wrong, the biomass is into losses, would you please throw some light on this, how it is going on.

Manish Mohnot: There is a big difference in accounting policies for biomass, which I think I highlighted also at the end of quarter 1. Carbon credits, which were taken in books based on certification till the previous year, now as per accounting standards needs to be taken based on approval. Right, there is a big difference in a time lag of you having initial certification to the final approval. Now that amount for the six months would be closer to Rs 2.5 crores, right, which has not been considered in the books as compared to the previous year. So we expect by quarter 4 that the entire amount should come in and quarter 4 you will see that entire windfall gain coming in of around Rs 5 to 6 crores.

Sanjeev Panda: Another part in the balance sheet items that is shown to us. The current investment was an amount, which was Rs 76 crores, in the FY12 end, has turned to Rs 6 crores. Could you give us like what exactly is it, and what are the components....

Manish Mohnot: The QIP funds, which were not deployed, right, if you remember we did a QIP 18 months ago, closer to 24 months ago. There were some funds, which were not deployed primarily because of Raipur plant, you know, we had QIP where one of the deployed was Raipur plant, the Capex part of it, a lot of it has been deployed in the last 2 quarters, and hence it has come down significantly.

Sanjeev Panda: That is it from my side Sir. In case anything comes, I will come back.

Moderator: The next question is from the line of Sandeep Tulsian from JM Financials.

S Tulsian: My first question is regarding the PGCIL orders that we are getting, we have been following these orders on the PGCIL website and over the last one month we see that the number of bidders in TLT has significantly come down, may be 4 or 5 bidders per project. So what is your sense, this kind of reduction could be sustained in the forthcoming quarters or this is a temporary dip as PGCIL is sort of exerting pressure on the fringe players, to restrict them from bidding and once they meet whatever qualifications or criteria laid down by PGCIL, this competition is going to pump up again in the second half of this year.

Manish Mohnot: Sandeep, I will divide this into two, first, I think, you know, the current environment is such where PGCIL has made it very clear that you need to deliver to get more orders. Right. They have benchmarks, they have standards, which you have to meet. Right, and they are very clearly articulated. Each one of us including the four or five who are approved now, have to make sure that we have delivered whatever we have committed to them. If you fail, we could be the next culprit in that sense. Second, would competition come up, definitely yes. Over a period of time, people would start delivering and they would reach there, but would it be to those levels, which we saw a few years ago, where we had 14, 15, at times 18 bidders. My personal view is no, because people, you know, now need to realize that it is not only about getting orders, or it is not only about order book, it is also about delivery within the defined timeframe. Yes, competition would come up, but it would not be as bad as what we saw in 2011-12.

S Tulsian: Fair enough. That brings me to the second question, whatever these guidelines were changed in terms of payment and the working capital requirement, and we have seen in the first half, your working capital has jumped up significantly, so is this kind of a shift more permanent in nature as the execution for PGCIL will keep on increasing from here on.

Manish Mohnot: Okay, there definitely going to be increase in working capital, and I had explained this in the last few calls also, given the revised payment terms of power grid, but would it be at levels at which we are at end of quarter 2, the answer is no. By the end of quarter 4, these levels would definitely come down, right, because that is a typical cycle, you know, if you look at our industry, that is a cycle. Your payment receipts are much higher in quarter 3 and 4 as compared to 1 and 2. You look at the history of the last 10 years it has always been the cycle. So it is definitely going to come down from these levels. We are confident of that, but if you look at YOY, it would definitely be higher than we had seen in the previous years in numbers because of the change of order book and because of the revised payment terms of power grid.

- S Tulsian:** Right, and one more question, on JMC projects, we have seen at the inflow over the last, say two years, was very strong because we had a lot of inhouse BOOT projects for which the construction portion was taken over by JMC project itself. So, in absence of any new such projects won over the last six months, do you expect, and first half we have already seen a significant decline, a sharp decline in the inflows reported by JMC so this sort of trend to continue going forward.
- Manish Mohnot:** There are two aspects to it, one, there is conscious effort from our side to make sure that we focus on execution and not building the order book, given that our order book had doubled in the previous year. If you look at the order book from levels of Rs 2000 to Rs 2500 crores in 2009-10, we are more at levels of Rs 5000 plus previous year. The second aspect, would orders dry up, the answer is no. While we speak, again JMC has three large orders, where we are favorably placed. The value of that is much higher than we have secured in the first six months, so in quarter 3 you should see some upside in the order book as far as JMC is also concerned.
- S. Tulsian:** Right, one last bookkeeping question from my side. The debtor numbers, which we report now under the new schedule, certain percentage of receivables are classified under other current assets or other non-current assets for debtors, which are long term in nature, could give that amount, so that we can make a like to like comparison for the debtors numbers.
- Manish Mohnot:** So what you asking is, my total debtors numbers right. Can I come to you with this? I have the numbers here, but we will just come to you with that exact number.
- S. Tulsian:** Sure, I am done with my questions. That is it from me.
- Moderator:** The next question is from the line of Deepak Rohra from Quest Investment. Please go ahead.
- Deepak Rohra:** I just want to get some sense on the JMC part, the long term plans that you have specifically there. As I see it, that we are already are in the infrastructure space, especially the building construction, that is office and so on and so forth, and also in the BOT. Are there plans to look at other segments in the building construction. May be other areas, which are like specialty or something of that sort.
- Manish Mohnot:** Within the buildings in practice, specific sector, yes we will continue to look for better area in terms of end-to-end delivery, which includes design. We are focusing a lot in building a design team, so that we can our inhouse design team as well as, you know, end-to-end delivery. Within buildings and factories, yes, we continue to look for better options, but if you ask me, are you going to diversify into more areas related to contracting, the current answer is no. Not in the next 6 to 12 months at least.

- Deepak Rohra:** Okay, fair enough. I mean, not even, let us say, like taking up the complete turnkey including design and all that, that you would do, but not
- Manish Mohnot:** That we have started. That is what I said, we have already built that full team for design, we have already looking at a few orders, one of them we should be winning soon, so that is already in place, and those orders should start flowing in from this current quarter itself.
- Deepak Rohra:** Okay Sir. One other thing is again on diversification, this is again in context of only JMC, Kalpataru Power has an international presence. How do we leverage that presence for JMC, Sir.
- Manish Mohnot:** It is already leveraged while we speak. We had submitted around 7 tenders in the last six months and we are already L1 in one of them yesterday itself. Right. So tenders were opened yesterday, unfortunately I cannot share the details of those. So, we are on track to leverage wherever Kalpataru Power is internationally, to make sure that JMC also had some foot prints there. You should see some orders coming in the third quarter and continuously from there onwards.
- Deepak Rohra:** Sir, can I just add one more thing to this. when you talk about the international, is there is significant difference in the way, you know, the business works, let us say in the other countries as compared to India. Are they pure EPC type of businesses, or they more turnkey, more design oriented. How does it happen there, Sir.
- Manish Mohnot:** The majority of international businesses, right, are more turnkey in nature. So it involves end-to-end, right from design to ensuring that you have the final touches also given to the projects, right. Second, big differences, a lot of these projects are fixed price in nature, which means your ability to manage the entire commodity exposure and all of that needs to be well in place. Third, the majority of them are funded, which is a big advantage, because then on payment and working capital, you are very well protected.
- Deepak Rohra:** Okay, Sir, if I may squeeze in one more question with your permission. This is more qualitative in nature. I hope ... we have been seeing changes in senior management, in terms of you know, inducting Mr. Tripathi and the others, so what exactly is the management plan, can you just throw some light as to what exactly are we trying to do in terms of business profile, are we changing that business profile, are we going to retain something similar. This is for JMC, Sir.
- Manish Mohnot:** No, we are trying to make sure that we get more professional people, because the way we have grown, if you look at JMC, we have doubled in terms of everything in the last 12 months. So that is why we had Mr. Tripathi, Mr. Manoj Kumar Singh, a few senior guys

coming in from the industry, so it is all to make sure that we have a right team which can deliver the planned growth.

Deepak Rohra: And also will it help you, in let us say the segments and the markets that you are looking at? Or is that a separate thing, that is only through Kalpataru.

Manish Mohnot: As far as the contracting side is concerned, you know, it will happen through JMC, the non-power related contracting. There as I said earlier, we do not plan to get into further diversification, but yes, we plan to get big time into the international operations and into end-to-end projects.

Moderator: Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund, please go ahead.

Madan Gopal: Sir, can you explain a bit on this steel price increase not catching up with IMI Index, can you explain a bit, what exactly happened.

Manish Mohnot: Madan, effectively last year some time, which was I think the second quarter of 2010-11, the indices of power grid was changed based on the approval of all the members and all of them, so they shifted themselves from EMEA angle index to a billet index, which is the declared by a few players, which comes out from ISPAT and a few others. Now while steel prices have gone up of angles, the billet index has not moved up so much. There is also a time lag. There was always a time lag in terms of 3 to 6 months both ways. When steel price went down, the index would not go down immediately and vice versa, but this time in the last six months, steel prices have gone up significantly, but the indexes have not moved so much. So while we have represented this through forums to the clients we still have this issue of our revenue not increasing in the same proportion in which the cost has increased, which is resulting in dent in profitability.

Madan Gopal: So basically you are booking revenue right now so you are recognizing based on the current index levels.

Manish Mohnot: Yes. The revenue is linked to the index in which the supply happens. If the supply happens in a particular month the previous months whatever index is that as compared to the index which was there at the time you had bid for the project.

Madan Gopal: But your billing also will be at these levels only so there is no chance when they make the payment also they can adjust for this.

Manish Mohnot: Not at all. It is a defined formula, which is whenever the dispatch happens the previous month index has to be taken for billing.

- Madan Gopal:** Okay. So that will lie unrecovered only whatever. Even if the index moves after this with a lag effect even then you will not be able to recover it.
- Manish Mohnot:** Yeah Madan that has always been the case. There is always a cycle. You can never be fully compensated and because every time when the index moves there is always a 2-3 months lag kind of thing. This time it has been more than 6-7 months. So even when steel prices fall the indexes do not fall so sharply. That is the nature of the business. It is just that last 6-7 months the hit on this have been much higher than what we had projected and I am sure this might be true for all the companies in our space.
- Madan Gopal:** You have been talking about competition is a kind of easing out in the first half and could probably catch up later, but given such a scenario and you are seeing lot of orders where you are L1. Can we end probably the year with kind of 15-20% kind of growth in order book levels year-on-year on basis? Is that possible or that would be tough to do?
- Manish Mohnot:** I personally believe it would be possible and that is what I had hinted that even at the year end we would be at closer to 24 months of order book, which means that if you could do a backward calculation it would be in excess of 15 to 20% as compared to what we were at the previous year end.
- Madan Gopal:** So something like 7400 crore you will aim to end the year with.
- Manish Mohnot:** In the range.
- Madan Gopal:** Okay. And that without any hit on margins probably with better margins compared in the previous year order book.
- Manish Mohnot:** Looks like and as I think with the current scenario you should not see a dent than what we have seen right now.
- Madan Gopal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Richa Jain from CRISIL. Please go ahead.
- Richa Jain:** Also my question is regarding the state transmission companies orders that you receive. This is significant decline that you see from the state transcos orders. So is it that the overall market is drying considering the financial position of these transcos or is that you all are not accepting the orders because they are of low margins and this 13% share of state transmission companies. So which are those companies.?

- Manish Mohnot:** To answer your first question, there is a combination of both. We have not seen many large orders coming from SEBs in the last 6 to 8 months as compared to what it was in the previous year. It could be combination of various things effectively, which is more at SEB level. We are bidding for these projects. We have won a few of them. We have lost a few of them. So it is not that we are not bidding for them. Our order book today has primarily orders on transmission from two large states. One is Maharashtra and one is Tamil Nadu. When I say large means still not large in the overall order book, but our primary exposure today is to Maharashtra and Tamil Nadu as far as projects are coming and some of them are already funded by REC-PFC.
- Richa Jain:** And you have won one order from PGCIL also. So that is 765 KV. So does it have higher margins as compared to your 420 KV?
- Manish Mohnot:** I think you know there isn't a difference in terms of margins when you look at a 400 versus 765 and it is about what is the cost required, what is the scale required and all of that. And it is about bidding. So when you bid for 400 or 765 your margin can still be the same percentage, but the value could be different depending upon what is the configuration of the project.
- Richa Jain:** And so you mentioned that your international contracts are mostly non turnkey contract. We have seen a significant increase from orders from US and Canada. Am I correct in saying that?
- Manish Mohnot:** No. I do not think in the last 6 months we have seen across the industry significant jump coming in from order in US and Canada. We have seen some supply orders come to a few place. Otherwise, it has not been significant.
- Richa Jain:** So they are mostly supply orders and not turnkey contracts.
- Manish Mohnot:** US has more supply orders. The turnkey is more Africa and Middle East, CIS and those zones.
- Richa Jain:** Okay. So order inflows are healthy from across continents.
- Manish Mohnot:** Perfect.
- Richa Jain:** Okay. Sir just one last question of any clarification question on clarificatory question on IEEMA Index is that only on raw materials or ended on labor also.
- Manish Mohnot:** It is primarily on raw material.

- Richa Jain:** So it is not on labor.
- Manish Mohnot:** It might be very minimal on labor. Significant impact is because of raw material.
- Moderator:** The next question is from the line of Chinmay Gandre from KR Choksey. Please go ahead.
- Chinmay Gandre:** I just wanted to understand like we got decent chunk of PGCIL order in this quarter and you said like things are improving with respect to competition in the PGCIL front. So I just wanted to understand like on the margin front how much margins have improved. whatever order you got off late. how better are margins as compared to what they were say 1 or 2 years back. If you can just share like in the sense of a ballpark kind of figure.
- Manish Mohnot:** I don't have a ballpark number, which I can share with you because margins on every project is different, right. So when you bid you decide on a strategy and you put in a margin. So only two things which I can share with you is as given the pressure of the client delivery has improved significantly, right and which automatically results in improvement of margins and second yes, they are not as badly priced when you had 15 or 16 competitors. So to that extent you would see some improvement coming in.
- Chinmay Gandre:** So what were the threshold margin than whatever orders you got say 1 or 2 years back when the competition was intense kind of thing. So what was the rough kind of range or how margins at which you took the projects or where the people were taking the projects.
- Manish Mohnot:** There is no such threshold. We all want to maximize margins, but we need to win projects also. So there is no such threshold. For every project you define a strategy when you are bidding for it and all of us would like to improve them. So it goes from as low as 3-4% and as high as 10-12% also. So that is the range in which we typically bid.
- Chinmay Gandre:** Okay and secondly sir on standalone front what is the debtor number outstanding as of now?
- Manish Mohnot:** It is closer to Rs 1500 crores on a stand-alone basis
- Chinmay Gandre:** 1500. Okay.
- Manish Mohnot:** Which includes the retention.
- Chinmay Gandre:** Retention will be how much.
- Manish Mohnot:** Retention is around Rs 640 crores out of it.

- Chinmay Gandre:** Rs 640 crores. Okay and on consol front what is the debtors.
- Manish Mohnot:** On the consol front debtors would around Rs 2100 crores.
- Moderator:** Thank you. So next question is from the line of Sandip Sabharwal from Prabhudas Lilladher. Please go ahead.
- Sandip Sabharwal:** Could you elaborate a more on your logistics business, how it is going? What is the capital you have employed there? And what is the revenue modeled out there and whatever plans on that?
- Manish Mohnot:** If you look at Subham what we had planned for the current year for two quarters we have done a top-line of 96 crores. Quarter two being 58 crores and quarter one was around 48 and we have been at EBITDA levels of closer to 14% with if you look at PBT levels of closer to 6% margins. We are in a growth mode as far as that business is concern. We are expanding our capacity by closer to 200,000 tonnes in the next six months with new locations being added up in MP and Maharashtra. A lot of this MP all our location should be ready in the next 30 to 45 days latest by December end and Maharashtra in the next six months. So in terms of growth, I think our capacity should double by the year-end and then we are looking at further growth going into the next year. To achieve this we are also looking at some support from external investor and there is a due diligence currently being done by one of the external investors into funding or putting an equity in this project. I cannot share further details about it, so from a growth perspective you should see this business doubling at least for the next 2 years.
- Sandip Sabharwal:** And any other segments in which you trying to get into in this business.
- Manish Mohnot:** Within the agri logistics space.
- Sandip Sabharwal:** Within agri or if you actually become slightly bigger on the logistics front any thought process on getting into any other segment.
- Manish Mohnot:** I think we would focus on the agri commodity logistics space only and we are today in majority of that value chain right which includes right from testing laboratories to processing to dry storage, cold storage, all of that. So I think we will be focusing on the value chain where we already exist, but we are going expand our presence beyond 3-4 states, it is going up to 6-8 states in the next few years.
- Sandip Sabharwal:** And in terms of margin long-term do you think the margin, which you have right now, those are the stand away margins or those could move up.

- Manish Mohnot:** For Subham?
- Sandip Sabharwal:** Yeah.
- Manish Mohnot:** I think at a EBITDA level in the next three you should see this sustainable for the next few years, but at a PBT and PAT levels you see improvement coming in because majority of the cost after EBITDA is interest and as you start repaying your loans for all the assets, your interest cost will start coming down.
- Moderator:** The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** On this end-to-end solution, which are the industrial area are we targeting?
- Manish Mohnot:** No sorry I missed this. This is for JMC.
- Bharat Sheth:** I am on JMC only sir.
- Manish Mohnot:** Within buildings and factory we are looking at a lot of places. It includes hotels, it includes education institutions, it includes factory plants, and it includes hospitals. So it includes a lot of them where design is also involved, right. So that is an area, which we are looking at.
- Bharat Sheth:** And profitability wise what kind of a different profile this project then we will have than the current EPC business?
- Manish Mohnot:** There is profitability as well as some risk. There are two aspects. One is profitability. Second is risk because when you do your designs and the end to end your volumes and all of that you are very sure of what you are getting into. So from that perspective I think it is obviously better than if you do it with design. So from profitability perspective there will definitely be some improvement on projects, which are end-to-end in nature.
- Bharat Sheth:** Sir on this JMC only mainly on international side we are talking. So which are again the country and which are areas that we have bided?
- Manish Mohnot:** The primarily focus in our countries are where Kalpataru is well established. When I say Kalpataru is KPTL. So we are looking at some opportunities in the African belt, some opportunities in the CIS belt as well as Middle East. Our primary focus on JMC as far as the international is concerned for the next six months is going to be on roads. Roads EPC contracts because that is a big opportunity available in a lot of international countries.
- Bharat Sheth:** And again profitability wise of course you explain the risk is also a little more otherwise profitability wise if you can manage our business how does it have a different profile?

- Manish Mohnot:** See typically for international project your risk is slightly higher than domestic project. So you typically like to have profit margins, which are higher than the Indian projects.
- Bharat Sheth:** And normally what is the size of the projects?
- Manish Mohnot:** They are reasonably good in size in terms of because road projects typically would be 80-100 odd plus crores. So they are reasonably good in size.
- Bharat Sheth:** And apart from you say there are two risks. one is it is a fixed price for commodity and apart from that is there any other risk that do we envisage at this stage.
- Manish Mohnot:** When you enter a new country as far a new operation although we exist there, as Kalpataru there always are those risk in terms of creating the right team, getting the labor, all of that, right. And since we are getting into it is for the first time you would definitely like to be cautious in the first few projects on JMC.
- Bharat Sheth:** I mean going ahead as you rightly said first we are bidding and building up the team. So will it be a kind of again very low profitability going ahead it will aid positively or....
- Manish Mohnot:** I don't think the intention is to take these projects at low profitability because those countries if you bid at low profitability you have a big risk with you. So they would not definitely be lower than what we are bidding in India.
- Bharat Sheth:** The kind of the run rate we have seen in order execution and order intake. So of course you said that in last year we have doubled, so we have full book. So going ahead again you see that our order book run rate should catch up with the execution rate?
- Manish Mohnot:** I think our order book should significantly improve going ahead right and the strategy is exactly the same what I said earlier for Kalpataru that we should have at least minimum 24 months' order book by the year end. So given that we are planning to have a turnover in the range of 3000 crores as far as JMC is concerned . We should be at order book in excess of 6000 by the year end.
- Bharat Sheth:** Last year we grew JMC almost by 50% and this year first six months by 46% more. So going ahead what are sustainable run rate that we look for JMC?
- Manish Mohnot:** We are aiming for 20-25% for the next few years because we believe that would be good rate to sustain at least for the next few years.
- Bharat Sheth:** And this year again will it be in a 30-40 kind of range?

- Manish Mohnot:** It should be in the range of (+30) definitely.
- Moderator:** Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.
- Manish Bhandari:** Hi, my question is on the warehousing business. What is the ROE that we are generating currently and what is your target ROE in the next 2-3 years?
- Manish Mohnot:** This business being slightly capital intensive in nature, ROE is targeted from a long-term perspective. The ROE is all in excess of 15%, but it is different for every location and every state. We are targeting ROE in excess of 15%, but it depends a lot on what are the market conditions? And again from a long-term perspective there is not going to be 15 from a three years' perspective, but definitely from a seven plus years' perspective.
- Manish Bhandari:** So if seven year perspective is 15% ROE, so what is the current ROE?
- Manish Mohnot:** 15 plus minimum, but every location is different.
- Manish Bhandari:** Yeah. So what is the consolidated ROE now?
- Manish Mohnot:** It is an excess of 15%.
- Manish Bhandari:** You mean to say for a warehousing business it is currently 15%.
- Manish Mohnot:** For the entire Agri Logistics Business it is an excess of 15%. It is not warehousing. It is a lot more valued-added services beyond warehousing. So we are talking of the entire Agri Logistics Business.
- Manish Bhandari:** So which would be a total turnover of Rs 96 crore what you have mentioned.
- Manish Mohnot:** No that means for the first six months. For the entire year the plan is more than 250 crores.
- Manish Bhandari:** So the whole total agri business what you are talking about and should have ROE of 15%, consolidated. Rs 250 crore should generate an ROE of 15%. Am I right on this?
- Manish Mohnot:** Yeah.
- Manish Bhandari:** My second question is on your international business. Would you look for any kind of acquisition or would you require to do an acquisition for having a very strong foot hold or your setup being from India or the way you are doing it now is okay?

Manish Mohnot: We continuously are evaluating such opportunities whenever they come. There is one clarity we have, we are not diversifying into any new contracting related areas. But if we get a good opportunity to acquire a plant, which is based overseas, we would definitely be interested in it as long as it comes in a decent value and as long as it adds in terms of our growth as well as profitability.

Manish Bhandari: My next question is on the real estate exposure what the group has entered into. One is on the Thane property in IT and IT Software Park. I am not sure there is any other property. So if you can give us a complete rundown on what all areas you are investing in the real estate and what is the logic of getting Kalpataru involved in the real estate business.

Manish Mohnot: Okay. I will just quickly take you to the background of why we have invested in the real estate project. This happened two years ago. This was primarily to qualify for BOT projects. Historically, we did not qualify for BOT projects because we were contractors and not developers. We tried to qualify a few years with partners, but we never were successful because they always gave us a lower stake and hence there was not a matching of minds. So in 2009-10 we decided to take this call of being a developer ourselves in KPTL. That was the right time the market was attracted, the price were low and we had money. So we decided. It was conscious call taken to acquire two projects, Thane and Indore. Thane the entire construction of the commercial space is done. We should see revenue starting from the last quarter if not the first quarter of next year. The IRR on that would be in excess of 18% if not higher than that. We might even exit some portion of it because today we have got enough BOT assets to qualify for larger assets also. So we are going to take strategic call of either to continue leasing given that has good IRR or we might even exit depending upon the market situation. On the second property, which is Indore, we have submitted our designs for approval, which is going to be a mix of residential plus commercial. We expect the approvals to come in the next couple of months. The target is before December end. So we should see the development starting early next year if not the last quarter itself and that is commercial plus residential. So we are going to exit that in the next 12 to 18 months. It is not a lease long-term, so we are going to just sell off. The IRR on that is also an excess of 20% while we speak now and once we do the development it might still be higher than that.

Manish Bhandari: How much capital you would have invested in that business?

Manish Mohnot: Both the properties put together it is in the range of Rs 200 plus crores. It is more in the range of Rs 225 crores.

Manish Bhandari: Okay. My last question is on if I look back between 2006 and 2012 one thing which has changed on Kalpataru is it is return on capital employed as well as return on equity, which is partially function of the market dynamics and the opportunity what is available in the market and partially also kind of long-term capital intensive business that we have picked

in. So I am just trying to understand how you are going to make a short-term balance between both. While I look at your competitor KEC, which has got a very superior return on equity profile or return on net worth profile. So where does your whole debate between investing in a very long-term horizon business and trying to do a mix and match between the short-term goals of having a shareholder value accretion.

Manish Mohnot:

I think this is an area where we have been focused for the last three quarters and that is why the policy we are not diversifying into anything, which is non-core any further till we capitalize on what we have already done. If you look at the return on all this what we have invested they should all start coming in from the next year onwards if not the current year itself. So our personal view is our return on capital employed and the equity should significantly improve in the next two years. So if you look at the 7 or 8 areas where the capital is blocked right now, right? If you look at JMC, we have started seeing some improvement as compared to what it was in the past in terms of net profit. If you look at Shubham, we have done very well and now we are getting external capital, so that we don't block our own capital. If you look at Thane and Indore, our capital should get free at least 50% in the next 12 months, which is the Indore property and Thane we can take a call. If you look at the road BOT projects 3 out of the 4 cash flows would start next year, which means the returns would start and the fourth one would be in '13-14. If you look at transmission BOOT, the cash flow has already started. So personally if you ask us our aim is to make sure that return on capital employed and equity improves significantly in the next 12 months and that is a target for the entire senior management today.

Manish Bhandari:

So if the number stands at close to 9 to 10% on return on equity currently as per the 2012 balance sheet. Is that we will see an improvement of more than 300 to 400 business point in end of the balance sheet 2013?

Manish Mohnot:

2013 I don't think it is going to be improved by 300 to 400, by 2014 definitely yes. 2013 could just be an improvement of 100 to 150 basis points depending upon you know what we decide to sell on some of our assets. By 2014, we are reasonably confident that it should be in the range of 300 to 400 what you had articulated.

Manish Bhandari:

Yeah, but it still does not match up to what the other competitor would do may be even in difficulty situation they are at a close to 15%, so I am just wondering that where is the mismatch between your business, which has got a very similar profile and in competitors may not be an apple-to-apple match, but very similar business profile.

Manish Mohnot:

It is driven from the vision of what the company wants to be, right? So if you look at us from our prospective if you would not have diversified where all we have diversified. Our consol revenue what we are projecting for the year would be in excess of Rs 7000 crores with margins which would be much higher than what we would have done if you would

have been a standalone company. So we took a call a long time ago of getting into related areas of contracting. Some areas where we could have annuity returns and that is what we have consciously followed. So it would take us time to reach there, but in terms of growth, in terms of size, I think today we are very different than some of the competitors who you had indicated earlier. So we are into all stages of contracting. We also have some large developer assets, which give us annuity return. It is a mix of revenue, which is not only contracting, so it gives us stability and it is coming back to those levels where would be love to be in a few years. It is only about the vision of what an organization would love to do.

Manish Bhandari: So it is not to do with the changing nature of the business. So you moving from a product company to a project company related to not something which is depressing the ROE.

Manish Mohnot: If you go back and see the nature of our business, which is contracting, right. The cash flow generated is not necessarily required for you to get onto that growth what is required. So you always would have cash flow, which is surplus available. So as promoters you are going to take two calls. One is either give back the cash flow to the equity shareholders or you invest for long-term growth. Now we focused on creating long-term growth and which believe we have achieved. Yes there has been a stress for a few years because of that, but I think that is the nature of the business.

Moderator Thank you. We will take a final question from the line of Pranav Gokhale from Religare Asset Management. Please go ahead.

Pranav Gokhale: Sir question on JMC. Between the segments building of products, infrastructures of factory or power, which are basic pinpoints, which are leading to this lower margins?

Manish Mohnot: First let's look at something, which is common to all the three segments. Okay. Availability of materials primarily sand, aggregates, the prices of cement that is something which is common across all. Right availability of materials and the price what you are paying for that is become a big concern across majority of the projects across the country. It is not limited to lets say a Western India or a Southern India or a Northern India. It is across the country and a lot more in areas like sand, which are more local in nature. Cement where prices have just skyrocketed all of us have seen that it has stabilized now in the last one month. So that is one area, which is the concern across. Now second area, which is again a concern are more on those projects where environment and clearances are required you know and some of them being our road BOT where one of them where we are doing the EPC also. So, because of that delays as you continue to be in that environment where your overheads are hitting you, but you are not actually getting the revenue out of it. So otherwise personally if you ask me buildings and factories still do the maximum in terms of margin percentage followed by power and road both together.

- Pranav Gokhale:** Okay. And infrastructure, which contribute 40% of JMCs order book, how much is in-house and how much is external sir.
- Manish Mohnot:** In infrastructure, which is lower to 40% in house would be half of it.
- Pranav Gokhale:** Okay. And even the in house orders are on a fixed price contract. They are not on a variable price.
- Manish Mohnot:** Yeah. But out of the four in house projects, which we have it would be not 50%, it would be slightly around 60%. Three of them we have done a back-to-back contract. So we don't have any fixed prices on that.
- Pranav Gokhale:** So going ahead as the development of these road projects pick up scheme these margins will improve because the percentage will be higher and these are back to back to contracts.
- Manish Mohnot:** Even if we can sustain what we had planned that would be good. Yeah. So it would be definitely better than what we have done now.
- Pranav Gokhale:** The similar question on the Kalpataru Transmission Business, I believe 50% of our revenues now will be coming from the international scene of the transmission segment?
- Manish Mohnot:** Perfect.
- Pranav Gokhale:** Of this 50%, these are fixed price contracts on which you have built for higher steel prices and other things.
- Manish Mohnot:** There is a combination of both. Out of the 50%, I think closer to 40 to 45% are variable price and closer to 60% of fixed price. But given that a lot of execution of this project. If you just look at our order book right. The last 12 months our order book on international is doubles and all that execution starts now. So the execution and revenue and the inbuilt profit on those orders you will start seeing from this quarter three onwards.
- Pranav Gokhale:** So if you look at H1 revenue, bulk of it in the transmission is domestic and may not be international. Is that the right?
- Manish Mohnot:** Yeah. And domestic is higher than international. Domestic would be closer to 60 and international would be closer to 40 out of the transmission revenue.
- Moderator:** Thank you. We will take one last question from the line of Ajay Seth from Quest Investments. Please go ahead.

- Ajay Seth:** Hi, I have a small question that you know when we construct these BOOT projects in JMC, how do we account the margins and profitability in JMC books.
- Manish Mohnot:** Our policy is very clear that when we do these contracts for BOT projects you know we do not recognize the margins on contracting in our books beyond what we have at standard levels. So if your standard is at 5-6%, we only recognize that. Beyond that it gets credited to the asset, right and to that extent the asset value would be adjusted at the end of the project.
- Ajay Seth:** So just without comparing any other company, but one of the company I came across that they charge 14% kind of a margin on their BOT projects for...
- Manish Mohnot:** We are in the low-single digit more in the range of 5 to 6%
- Ajay Seth:** So that is like solid conservative policy.
- Manish Mohnot:** That is what Kalpataru has always been doing. We are the only, which has the provision for performance warranties on our balance sheet of more than Rs 150 crores both the balance sheets put together.
- Moderator:** Thank you. I would now like to hand the flow over to Ms. Bhoomika Nair for closing comments.
- Bhoomika Nair:** Thank you everyone for taking time out for this call especially the management. Thank you very much sir for answering all the queries.
- Manish Mohnot:** Thank you Bhoomika.
- Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.