



# “Kalpataru Power and JMC Projects Q4FY13 Results Conference Call”

**May 17, 2013**



## **MANAGEMENT:**

Mr. Ranjit Singh – *Managing Director*

Mr. Manish Mohnot – *Executive Director*

Mr. Kamal Jain – *Director, Finance*

Mr. Manoj Tulsian – *CFO, JMC Projects*

## **IDFC SECURITIES:**

Ms Bhoomika Nair – *Analyst*

**Moderator** Ladies and gentlemen, good day and welcome to the Kalpataru Power & JMC Projects Q4FY13 Results Conference Call hosted by IDFC Securities Limited. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, 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 of IDFC Securities. Thank you and over to you madam.

**Bhoomika Nair** Thanks Inba. On the call today, the Kalpataru Power the management is being represented by Mr. Ranjit Singh – Managing Director, Mr. Manish Mohnot – Executive Director, Mr. Kamal Jain – Director, Finance and from JMC Projects is Mr. Manoj Tulsian – CFO. I would now like to hand over the call to the management for their initial remarks, post which we can open up for Q&A. Over to you sir.

**Ranjit Singh** Good morning everyone. We have declared Q4 Financial Year 2013 Results of both KPTL and JMC and I believe all of you have received the copy of the results, press release and presentation of the same.

Before proceeding with the Q&A session, I would like to take you through some of the key highlights of our results and the recent developments that have taken place. In KPTL on a full year basis we have achieved Top-line growth of 10% with core EBIDTA margin of 9.7%. Top-line growth was slightly shorter as per expectation, mainly due to reduction in contribution from the pipeline division. Otherwise transmission line business has grown at about 12% which is our core business and which is quite healthy considering the current weak business environment in the power sector. Going forward with current order book in hand and favorably placed orders we are estimating a Top-line growth of 10% to 15% for the next two years.

As far as last quarter is concerned, it is broadly as per expectations although Top-line declined slightly by 3% but EBITDA has grown by 7% even after adjusting losses in pipeline and railways projects. In the transmission line business we are estimating a long term expected EBITDA margin of over 10%. During the last quarter we have started commercial operation of our Raipur plant, which has a capacity of 55,000 metric tons. With this new addition we now have a total manufacturing capacity of 180,000 metric tons. As far as order book is concerned we have received orders of above Rs. 3000 crores in the last year as far as KPTL standalone is concerned including Rs. 800 crores of orders which received in last quarter. This year we have also entered in five new countries. Geographical expansion and growing international business is one of our key focus areas and we have grown in five new countries and also regained market shares in the domestic business.

As far as JMC is concerned we have achieved top-line growth of 23% in full year which is very commendable and 9% in the last quarter. The EBITDA margin is similar to the full year i.e. 4.7% going forward our top-line growth we are estimating to be about 10-15%.

This year JMC has achieved a record order flow of Rs. 2500 crores which has been growing which includes our first international EPC contract in Ethiopia of about Rs. 350 crores. This is a road project. Apart from the quantum of order book that is Rs. 5600 crores, we are also very positive on the quality of current order book as over 80% of current order book have price variation clauses or free supplies so that there is very little risk, because in past we have seen that our margins got badly hit because of the risks that were inherent in the fixed prices contracts, which we do not expect now and we have consciously worked moving towards more price variation clauses in orders. All of our road BOOT projects are progressing well. The first project that is Rohtak-Bawal would be operational in next few months and Agra-Aligarh project would be completed by the end of this financial year and other two BOOT projects would also be operational next financial year.

As far as Shubham Logistics is concerned it continues to grow on both top-line and bottom line on the full year basis. We have achieved 14% Top-line growth and PAT has grown about 4.5 times. As per the plan, during the last quarter we have increased our owned agricultural logistic part (ALP) capacity by 45,000 metric tons to reach 360,000 metric tons. Also the last quarter we have signed an agreement with Tano Capital, which all of you would be aware about to raise Rs. 80 crores for the future growth plans, this fresh capital would be utilized to fund capacity expansion and internal debt repayment. We have plans to increase our own ALP's capacity to about 600,000 metric tons in the next three years. With this update I would like to open the floor for the Q&A session. Thank you very much.

**Moderator** Thank you very much sir. Ladies & gentlemen we will now begin the question and answer session. Our first question is from Renu Baid of Batlivala & Karani Securities. Please go ahead.

**Renu Baid** Sir my first question pertains to the fourth quarter results itself. Despite of a sequential basis if we look in our infrastructure segment has shown improvement in the overall sales but there is still a loss. Sir if you could firstly elaborate on how does the segment has contributed to a loss and what have been the factors leading to this poor performance?

**Ranjit Singh** You are talking of KPTL Q4?

**Renu Baid** Yes, KPTL Q4 standalone results.

**Ranjit Singh** There is two parts to it – one is the railways the other is the pipeline business. That is what we put infrastructure. As far as railway is concerned as you would be aware we started on this business about two years back so we are in the process of developing the business plus we got a better order book initially for about Rs. 700 crores so we went a bit aggressive as far as

margins, etc., are concerned. Some of those low margin projects are under implementation so obviously we are facing a margin crunch as far as railway business is concerned. That is part of learning curve which we are going through right now and we are very-very hopeful that the future for railways business is going to be very-very bright. We have plans of getting into DFCC, we have plans of getting into overhead electrifications a big way and we expect large amount of investment is going to take place in railways and we will be well-positioned to exploit these opportunities. So in a way Railways is more of an investment for future growth. As far as pipeline is concerned the overall macro economic situation has affected the pipeline business. There are certain cyclical issues which we expect to get over in the next one year time. We saw very-very irrational kind of competition in the past because of which margins were pressured but we see signs of more rational pricing coming into the industry. Secondly we are seeing that customers are also getting more discerning and there is a flight towards quality as far as awarding of contract is concerned. So though we have made losses in the few quarter we expect that in future the business will do well, both these businesses will also do well along with the transmission business

**Renu Baid**

Essentially sir I was trying to get a picture in terms of if you look at Rs. 100 odd crores of sales what proportion of sales would have come from the railway segments approximately because the loss is almost Rs. 7 crores, so is that the railway segment has not made any profit that has been the key loss making segment or the fixed overheads on the pipeline has contributed. If you can give us a relative picture of which segment within the infrastructure has been the key contributor for the loss.

**Management**

Mainly they have been contributed by the overheads which could not be recovered due to the lower turnover of the pipeline. In railway hardly there was a loss of 60-70 lakhs to 1 crores.

**Renu Baid**

Okay, so it was relatively lower on that side.

**Management**

Mainly because of the pipeline.

**Renu Baid**

And sir second question is in your opening remarks you mentioned of a guidance of next two years of 10% to 15%. If we compare this with your previous indications, where you were confident of 15% plus comfortable growth. So there has been a relative tone down in the guidance especially on the execution side. What makes you little more conservative on that side? Is it execution on domestic projects or the overseas projects? So if you could just give us more clarity on that side of business?

**Ranjit Singh**

As far as transmission line in domestic segment is concern, total pie itself has shrinking a little bit because of the lagged effect of the problems in the power sector, which have been taking place. If you look at for example, PGCIL order which is the bell weather for transmission line market. For transmission line business it shrunk in 2011-12 of Rs. 10,000 crores total order disbursement that we made. Last year they made an order disbursement only of Rs. 7000 crores. So with that the total pie itself is shrinking, though we are maintaining our market

share, in fact we have increased our market share last year and we will continue to increase our market share. We expect that there will be some kind of an overall market shrinkage which may take time because of which overall situation as far as growth is concerned will not be all that good. But significant part of it will get compensated by growth in international market which is our focus segment as far as if you look at the revenue, last year the revenue from transmission and domestic was about 50% for international 35% and infrastructure was 15%. Going forward we expect most of the growth to be coming from transmission line international as far as next half year is concerned and order book also reflects that.

**Renu Baid** Sir largely the moderate growth in revenues would be driven by the mix that change within the domestic and international space.

**Ranjit Singh** Yes, mixed changed significantly. I mean it is going to change further plus like I told you last year it was about 50-35 as far as domestic and international is concerned. That should move towards 50-50 in the next couple of years.

**Renu Baid** Sure, and sir my last question if I can just get into this overall as a company we have been focusing to improve our ROCEs and try to get money back from the various initiatives in which we have invested money be it the real estate, logistics or the other segments of the business. So if you could just throw some light in terms of your views on the road map to improve ROCEs and reduce the capital employed in the business over the next 12-18 months.

**Manish Mohnot** Quickly, there are a few initiatives which have been taken of this. The first one was Shubham. The money did not flow in by 31<sup>st</sup> March but you will see the impact of it coming in this quarter. Second our Thane property is now ready. We are looking at various opportunities of either long term lease or sale. We expect that this should happen if not now in this quarter, for sure in next quarter. It is completely ready. We have got the OC certificate, it is all done. Third, we should be launching our Indore property in quarter-2 quarter-3. All the drawings have been submitted for approval and we expect it to come in anytime now. So these were three big initiatives which should release closer to Rs. 250 crores out of our balance sheet in the next 12 months.

**Renu Baid** Okay and sir what would be the debt repayment exact number coming from Shubham Logistics for KPTL?

**Manish Mohnot** Closer to Rs. 60 crores.

**Renu Baid** And if you can just elaborate more in terms of the working capital release that you are expecting in the next 12-18 months, an improvement or traction on that side?

**Manish Mohnot** I think on the working capital there are three specific areas where we have focused. One is to revisit the inventory norms in terms of inventory reduction. Although in absolute value it will not reduce because we have increased the production capacity but in terms of percentage that

is one area where we have a lot of focus to see how we can reduce that. Second is, we have always focused a lot more on collections to see how we can improve that. It has improved significantly in the current year and third would be to make sure that we get extended credit period from all the creditors who are supplying to us today. But the first would be the big focus, because that is one area where we think we can improve and we are going to focus on that to make sure that the improvement is visible in the first few quarters itself.

**Renu Baid** Sure, but overall we do not have any large retention stuck with any particular client anymore, so most of the money was released?

**Manish Mohnot** No, in the debtors the retention is closer to Rs. 700cr today. In the sense yes, everything will come whenever it is due.

**Moderator** Our next question is from Kishan Gupta of CD Equisearch. Please go ahead.

**Kishan Gupta** Just want to know like if you see JMC EBITDA has been dipped by almost 30% inspite of good sales growth, so how do you plan to arrest in season shrinkage in construction margins?

**Manoj Tulsian** Couple of points, I think JMC if you look at the forecast at the beginning of the year itself we had said there is a lot of pressure on margins in the current year primarily because of 2-3 factors, one is the external prices of a lot of materials which went up. Second is the pressure on labor availability and all of that. What we have consciously done in the last six months is to look at a different kind of order book where a lot of these elements have passed on to the clients in terms of price variable contracts. So our last 2000 plus crores worth of contract which we have won in the last six months we have made sure that all those risks which has more external factor are built into the cost or are passed onto the client. Given that we believe that going forward we should see improvement in JMC margins, not significant but at least 100 basis points in the current year.

**Kishan Gupta** So how much is the margin now?

**Manoj Tulsian** At EBITDA level closer to 4.7% and we expect it to be more in the range of 6% going forward for 2013-14.

**Kishan Gupta** And is there a one-off in the T&D business as margins this time almost touched 10%, I mean last quarter?

**Ranjit Singh** I do not think there is anything one-off. I think our standard margins have been always in the range of 10% only. 9.5% to 10.5% has been our range always. Some quarter has been low primarily given the order book execution which happens otherwise we have been on the same.

**Kishan Gupta** No, but if we compare year on year as well as other EPC players who are doing almost 8-8.5% margins so why this time is it so higher? Is it only because the order book you had in hand, which were of higher margins or any one-off?

- Ranjit Singh** If you look at Kalpataru Power numbers for the last whatever number of quarters, yes there have been a few quarters where the margins have been low below 9. Historically, we have been bidding at margins in excess of 9% and we have been getting more in the range of 9.5% to 10%. In few quarter yes, depends on order book but this is a quarter which was planned. There is nothing exceptional or nothing extraordinary in the margins at all.
- Kishan Gupta** And what is your expectations FY14 in T&D margins?
- Manish Mohnot** 100 basis point improvement we are likely to see in
- Kishan Gupta** 100 basis points you are saying 10%?
- Manish Mohnot** About 10-10.5%.
- Kishan Gupta** And last question on what led to almost doubling of profits under the head other than the consolidated accounts?
- Manish Mohnot** Other income you are saying?
- Kishan Gupta** No, I was seeing the other under segment results which we consolidated accounts it has gone up from almost 28 crores to 54 crores.
- Manish Mohnot** One large contribution to up that was Shubham, so if we look at Shubham last year versus this year their profits have gone up by 4.5x so if you look at consolidated accounts one large contribution to that was Shubham Logistics where our PBT last year was closer to Rs 4 crores and this year it is closer to Rs 20 crores. So that is been one large contributor to us.
- Kishan Gupta** And still there is a Rs 10 crore gap, so is it something
- Manish Mohnot** Second is some of our subsidiaries on the transmission side so Jhajjar KT which last year contributed only for two months because it got operational in February. This year it contributed for the entire year so there is the contribution on that account which has been closer to Rs 6-7 crores.
- Moderator** Our next question is from Chinmay Gandre of K R Choksi. Please go ahead.
- Chinmay Gandre** Sir the Q4 sales were subdued. I mean we saw a decline in the standalone sales, and also the T&D sales. Sir any particular reason?
- Manish Mohnot** Basically it has been the order disbursement. The sales part it is normal quarter to quarter variation which take place in the business, nothing very-very specific.
- Chinmay Gandre** Like no particular projects were wash back or any other like clients are not paying on time so you slow down the execution, nothing of that sort?

- Manish Mohnot** No, nothing unusual about this. We are normal quarter-to-quarter variation which is there.
- Chinmay Gandre** And sir with respect to interest cost, any FOREX gain or loss it is I mean is part of that?
- Kamal Jain** Foreign currency loss in interest cost is almost Rs 9 crore for the whole year. For the quarter it is almost Rs. 1 crore gain is there.
- Chinmay Gandre** Your borrowings have come down to almost Rs. 591 crores, so if I just take from Rs. 833 crores to Rs. 591 crores and you paid almost Rs. 30 crores kind of interest for the quarter, your cost of borrowing comes to almost like (+15%), so can you throw some light on that?
- Kamal Jain** The debt has come down only in the last two weeks of the year end otherwise in the month of January and February our utilization was on a higher side and our average rate is around 10.5%.
- Chinmay Gandre** Sir and you said with respect to the T&D segment we expect margins to improve to 10.5%. So from where did you derive the confidence that margins will improve, do you see competition is easing or what gives you confidence that the margins will be improved in the T&D from here on?
- Ranjit Singh** Based on the order book position basically because once we booked the orders we book it on certain EBITDA margins which is the budgeted margin, so the confidence really comes from there. The second is we are also putting into place a lot of actions and initiatives to improve the margin as well as reduce the working capital which Manish talked about. So both these things put together our confidence in the order book and the further improvement that we plan to make in the EBITDA margin.
- Chinmay Gandre** Sir, so for the new order that you are bidding, are new orders available at these kind of margins or is it that order backlog has few good high margin orders because in last year if we see the competition was not as high as it was there in FY11-12.
- Ranjit Singh** There is a mixed portfolio of orders which are there and mix of EBITDA margins which are there. So typically on an average we try and plan in such a way so that we are in the range of 9.5% to 10.5% EBITDA margin because we feel that below this something which we should not be destroying value. And more with this would lead to loss of market share as far as we are concerned. So broadly we try and keep between 9.5% to 10.5% and that is what we have been hitting quarter after quarter over a long period's time.
- Chinmay Gandre** And what is our sales and margin guidance with respect to Shubham?
- Manish Mohnot** We expect sales to go up by closer to 25% in the next year, given the new capacity which we have added in the Shubham and margins from here should grow up by closer to 40% to 50% going into the next year. So next year we should be at levels in Rs 30-32 crores as far as PBT is concerned.



- Chinmay Gandre** Sir in terms of operating margins I mean they would improve from 12.5% kind of levels.
- Manish Mohnot** Yes sure, I think operating margin at EBITDA level we expected to be in excess of 15% going forward.
- Chinmay Gandre** So this has been primary because of the utilization, I mean how do you see margins improve from here on in Shubham?
- Manish Mohnot** It is a combination of three things, one is the utilization levels which have increased. Second is the tariff which we get paid from various warehousing corporations like FCI and all of that which has gone up and third is the new capacity which we have added so the combination of all three.
- Chinmay Gandre** Sir with respect to CAPEX I mean how do you see CAPEX for the standalone and that would not be much but for the consolidated as such?
- Manish Mohnot** At a consolidated level CAPEX should be more in the range of Rs 150 plus crores, primarily standalone would be Rs 50-60 crore for Kalpataru, around Rs 40-50 crore for Shubham, and around Rs 40-50 crore for JMC.
- Chinmay Gandre** Sir and in PPT you are given like total consolidated loan funds are Rs 1800 odd crores and you are given individual breakup KPTL-JMC standalone and Shubham so roughly Rs. 500 crores is the difference, is it because of the JMC standalone and JMC consolidated?
- Manish Mohnot** Yes I think the difference primarily is the JMC standalone to consolidated which is all the road BOOT projects which come in there.
- Manoj Tulsian** I think it is all for the road BOOT project, so if you look at the four road BOOT projects Rohtak-Bawal has the maximum amount because it is at the stage of commissioning anytime now. So Rohtak-Bawal would be significant now. That may be 70% to 80% of it and the balance three projects out of which one more we should expect it to get commissioned in the next year or in 2013-14 would have the balance. So it would be basically between all the four road BOOT projects only.
- Moderator** Our next question is from H R Gala of Quest Investments. Please go ahead.
- H R Gala** Just a few questions on the JMC project side, one is that in FY13 standalone how come our tax rate has been negative?
- Manoj Tulsian** See the reason for that is that we get certain 80-IA benefit for our infrastructure projects and since this year the profit is low we have got significant amount of our total 80-IA benefit on the total profits and then there are some disallowances because of which we get a deferred tax asset benefit. That is the reason this reversal is there but next year once we come back to our normal profit levels, we will come back to the normal tax rate.

- H R Gala** Okay, so what would be the tax rate taking into account the 80-IA and other benefit that you may get even?
- Manoj Tulsian** Anything between 20% to 23% for the next year.
- H R Gala** My second question pertains to how come the pending order book position that we have, are we still sitting on some orders which have got subdued margins?
- Manoj Tulsian** That will remain in the business, so there will be some orders which will be with subdued margins but the new order book which we are booking there we are very careful and very conscious in only taking those order books where we are sure of touching around double digit margins. But then you know that this business there are lot of execution challenges, which does come. So that remains to be seen to what extent we are able to protect the margin which we actually get during the bidding stage.
- H R Gala** But are there any significant amount of orders that would worry you next year from achieving our objective of the increasing around more than 100 basis points PBIDT margin?
- Manoj Tulsian** For the first two quarters yes, we have a few orders which we need to focus on completion. So the first few quarters you will still see some stress on margins. But going onto the quarter 3 and 4 we believe that majority of our low price orders we should be over with that.
- H R Gala** Sir on the BOOT project what would be the timeline for starting this Rohtak-Bawal?
- Manoj Tulsian** See Rohtak-Bawal the good news is we are almost six months ahead of our schedule. We are supposed to complete the project around November, but as we have been telling in some of these calls that we are trying to achieve the COD by June, we have already applied for the provisional COD a couple of months back.
- H R Gala** June of this year, so that means next months itself?
- Manoj Tulsian** Yes, Next month and we have already applied for the provisional COD around couple of months back so any time the project will go live on the tooling basis.
- H R Gala** And what would be your expectation of toll collection?
- Manoj Tulsian** See it is a joint venture. So our expected annualized revenue in the first year would be close to around Rs 40-45 crores.
- H R Gala** Our share?
- Manoj Tulsian** Yes, Our share.
- H R Gala** That is roughly I think 51%?

- Manoj Tulsian** Yes.
- H R Gala** Okay. And sir in terms of the equity infusion into this BOOT project, I think we have invested so far around Rs 200 crores?
- Manoj Tulsian** No, we have invested close to around Rs. 250 crores and the balance has to be done in the next 18 months.
- H R Gala** So balance will be about Rs 150 crore?
- Manoj Tulsian** Yes, Rs 150-160 crores
- H R Gala** And that we will invest in FY14 itself?
- Manoj Tulsian** No, it will be over the next 24 months, 18 to 24 months.
- H R Gala** And how much will be in FY14 out of that roughly, out of Rs 150-160 crore?
- Manoj Tulsian** I think it will be close to around Rs 100 crores, depends on the progress of the project but our rough estimation is maximum Rs 100 crores.
- H R Gala** So balance you will get over in FY15. And sir we are having these four BOOT project, what kind of rough equity IRR do we have in mind?
- Manoj Tulsian** See when we have bid it has been between 14% to 16% but finally we have to see when the toll starts how they all pan out.
- H R Gala** But do you have indications that we will be able to be within this range of 14 to 16%?
- Manoj Tulsian** Yes, our internal study has been very good because of our first project Rohtak-Bawal, which we are going to go live and as we near completion of our other projects we also have some more study to see whether we are track or not. See right now the best thing is in terms of construction we are well on track and we are trying to see that because construction is supposed to be the maximum risk on any of these projects and as we just mentioned that the first project we are closing almost 6 months ahead of schedule, we are trying our best to achieve these type of feat in the balance three projects also.
- H R Gala** Last question from my side, this consolidated profit in JMC is lower than standalone, so these losses are mainly in which company?
- Manish Mohnot** No, no these are not losses but these are basically the EPC business, which we have got from the SPV. So at the consolidated level the profit gets knocked off. These SPVs actually give a back to back business to the JMC only, right.

- Moderator** Our next question is from Sanjeev Panda of Sharekhan. Please go ahead.
- Sanjeev Panda** As in continuation to the previous question asked by previous gentleman, JMC projects subsidiary and consolidated, but I just it is squared up because of the SPV projects but at the same time in JMC balance sheet between standalone and consolidation there is a gap in debt of 550 crore of debt in compared to standalone and consolidation debt of JMC. At the same time there is debt of jump around 300 crores. So can you explain these two things that where we have made one input money into?
- Manoj Tulsian** No, see mainly this one year even explained earlier by Mr. Manish, has gone into the SPV project. See all the four projects are running right now, so the debt infusion would be there. And mainly it has gone into these SPVs only. So this year also you will see similar increase in the debt profile and mainly because of the SPV.
- Sanjeev Panda** Okay, because what I believe is one of our efforts now to improve ROCE, I believe if we look at the whole consolidated balance sheet, the standalone is doing well, some of the JMCs are pretty flat kind of thing. So this investment made in these areas which is basically shown as the consolidated part of JMC but not part of the standalone JMC that is where the rationalization need or probably if we can start earning then only the ROCE would have a significant impact. Please correct me I am wrong in taking this assumption.
- Manoj Tulsian** No, I think you are perfectly right in that assumption. There were couple of things which we are planning, one is to improve the basic margins of JMC itself because the levels at which we are not something at which they are comfortable with. So you need to focus on that and the second is the moment the cash flow on this starts improving, right. This year we planned two out of the four BOOT projects would go live, the moment you start getting cash flow and start repaying your debt and interest cost obviously things will improve. So you are right there are two things which needs to happen, improve margin of JMC and make sure that the BOOT gets operational at the earliest.
- Moderator** Our next question is from Manit Varaiya of Vallum Capital Advisors. Please go ahead.
- Manit Varaiya** My question was relating to the ROCE, just wanted to know in detail, by when would we achieve a 12% return on capital employed .throw some light on that.
- Manish Mohnot** We should aim for it closer to let us say, next year basically reaching 11.5% levels and the year after that 12-12.5%. As I said earlier next year we plan to reduce the capital on all our investments by closer to Rs 250 crores, which is primarily coming out of Shubham, Thane and Indore. The further improvement should come here after next where all the BOOT projects should start flowing and the cash flow should start coming in, which will help us. So 12-12.5% is still 18 months away.

- Manit Varaiya** Okay and we factor in the, as you said there is usually a delay in getting approvals. So on that we usually incur interest cost because that is an ongoing interest expense, so do we factor in that when we consider projects to be taken up?
- Manish Mohnot** Yes, that is already factored in whatever we told you. For example, the Thane project we already got the OC, which is with us right now. Shubham, we have already signed the deal, it has been announced. So it is just that it happened after 31<sup>st</sup> March, so the impact is not seen in the balance sheet. The third real estate project, we have already submitted all the drawings for approval and we believe that should go ahead. On the road BOOT, the first two are nearly complete. Our process of getting the COD started a few months ago. One of them is nearly complete. One should happen in quarter 3. So the process starts six months before actually when we complete the project and we believe that we are confident plus-minus a few months here and there, which is the nature of our business things, should be on track. There are issues in terms of external factors like environmental forest any of those.
- Manit Varaiya** What is the variation usually observed I mean in duration of months in terms of external factors or probably delays cost to approvals?
- Manish Mohnot** I think if now we do not have any environment or forest clearances issues which we have vigilance of our projects I think it is a matter of plus-minus four to six weeks on all of these projects.
- Moderator** Our next question is from Swarnil Maheshwari of Edelweiss. Please go ahead.
- Swarnil Maheshwari** Couple of questions from my side. Sir first is like at the end of Q3 FY13 we had maintained our revenue guidance at 15% for the full year FY13. Now looking at the full year numbers I mean our revenue would be 10%, so there is a miss over on 5%. Now you did mention that in Q4 our infra division particularly the pipeline division was quite tepid, but sir that is just 10% of the numbers. The main miss is coming from the T&D numbers. So sir any particular reasons on that?
- Ranjit Singh** Yes, there was one specific incident in which Government of India issued some regulations about BIS certification of steel that we use in transmission line components. At that point of time we had done import of steel so there is some procedural issues which were involved in terms of getting specific clearance in getting the BIS certification etc, which took some time and which towards the end of the year we could ship out significant amount of these items, which was invoiced in the first week of April itself. So that explains.
- Swarnil Maheshwari** So that should be taken care in Q1 itself, FY14?
- Management** It is already been taken care of in the first week of April itself. We got that permission on 26<sup>th</sup> March or something so we could ship out by first week of April.

- Swarnil Maheshwari** And that second one is on if we look at the other operating expenses they do not commensurate with your sales growth basically, they are up almost around 22% YoY. So any one offs or any particular reason in that?
- Kamal Jain** The main reason is due to more overseas projects there are certain expenses like agency commission, etc., which has increased and the service tax rate has increased from 10% to 12% so to that extent some impact is there.
- Moderator** Our next question is from Chinmay Gandre of K R Choksey. Please go ahead.
- Chinmay Gandre** Sir you mentioned in the call that in the first two quarters you see pressure in margins, I mean you are talking specific to infrastructure division or also in the T&D sector.
- Manish Mohnot** Overall the comment that we made was respect to JMC. JMC had some projects, which were low margin, which should get over in the first two quarters. The first two quarters the margins may be a bit tepid which will pick up after that.
- Chinmay Gandre** And sir with respect to you said that consolidated Capex would be roughly Rs. 150 odd crores, you have included that the Capex you would be spending towards the roads in that Rs. 150 crores, right?
- Manish Mohnot** No, that is not included in this.
- Chinmay Gandre** So how much would that be? How much would be total consolidated considering that?
- Manish Mohnot** See road projects they will be close to around Rs. 500 to Rs. 600 crores further addition which will take place.
- Chinmay Gandre** In addition to 150 crores?
- Manish Mohnot** Yes.
- Chinmay Gandre** And how do you see your loan funds moving from Rs 1800 crores?
- Kamal Jain** We expect it to be more in the range of Rs 2000 crores at next year end, Rs 2000 to 2200 crores at next year end at a consolidated level and at the standalone level it should be at similar levels as far as KPTL is concerned.
- Chinmay Gandre** And you are expected to maintain similar debt levels
- Kamal Jain** Yes, at the range of 590 to 600 crores
- Chinmay Gandre** Your sales would increase at say 10% to 15% so you are offering up to – how do you expect loan funds should remain at 600 odd levels.

- Manish Mohnot** No as we indicated earlier we have plans to improve our working capital on two or three areas. This was indicated earlier also and that is why we are running with a target of closer to Rs. 600 crores debt level at the year end so we need to improve our inventory levels, we need to improve on a few things. And based on that we will target keeping loan levels at around Rs 600 crores on KPTL standalone.
- Ranjit Singh** As Manish talked about it As far as KPTL standalone is concerned , we have launched significant initiatives in terms of Kaizen implementation in all our plants which we are going to extend. So this is significantly business transformation initiative that we are taking this year, which we are going to take it to other areas also once things become okay as far as the plant part is concerned into construction as well as into procurement. One major thrust of that would be reducing the capital employed apart from increasing the margin. So you are going to see significant improvement in the operational efficiency and operational excellence itself going forward.
- Chinmay Gandre** And Rs 2000 to 2200 crore loan funds by FY14, I mean this include also the funds we should be driving for the road, right?
- Ranjit Singh** Yes, it should be around Rs 2,200 crores.
- Moderator** Our next question is from Divyata Dalal of East India Securities. Please go ahead.
- Divyata Dalal** Coming to your T&D business I wanted to know that going forward since our mix is going to change in favor of domestic and international 50-50 so how confident are we that we will be able to maintain the earlier level of margins of around 10.5% in terms of riskiness of the international business, how do you think we will be able to maintain this level of margins?
- Ranjit Singh** See there are two kinds of things at risk that we are talking about. One is of course execution risk where we have got a strong track record in terms of executing projects in Africa and all other regions, so we do not see significant risk in the international business? The other risk could be the liquidity risk and the payment risk. Most of our projects are multilateral funding, world bank funding, etc., so we do not see any risk as far as that is concerned.
- Divyata Dalal** And do we have price variation clauses here or these are fixed price orders?
- Ranjit Singh** Most of the projects have got price variation clause.
- Divyata Dalal** Coming to Shri Shubham Logistics, can you give us a roadmap we are targeting to increase the capacity to 3,60,000 metric tons. How will it pan out over a period of next two years?
- Manish Mohnot** I think if we look at 3,60,000 MT's it includes some of the capacities which we are managing for some of our partners on the PPP mode. If you look at our own capacity we expect that to increase a bit closer to 50,000 tons in the next three to six months primarily in warehouses in

MP and Maharashtra. Beyond that next year we again plan to increase it by a lakh tons going into a few more states.

**Divyata Dalal**

And what would the states be which would these be?

**Manish Mohnot**

In MP and Maharashtra we have already bought the land and are at an advanced stage, the next two states are still at a discussion stage and we will not be able to declare it right now. May be by the end of the quarter we will be able to tell you those.

**Moderator**

Our next question is from Amber Singhania of Quant Broking. Please go ahead.

**Amber Singhania**

Just wanted to understand that business dynamics of your Thane property and Indore, if you can just throw out something like what kind of cash inflow you will be having at the same time what kind of project cost will be there? Will it be self funded or whether we need to put more money from KPTL as such?

**Manish Mohnot**

Our total investment in these two projects is closer to Rs 300 crores while as of 31<sup>st</sup> March, I do not think we need to put in any further money in this. Thane is completely ready and we have approximately 3 lakh plus sq. ft. of space, which we are going to look at. We are looking at two options – one is a long term lease and we have two-three interested parties on it, with a very decent rate although I cannot declare the rate now. Also we are looking at selling it for which also we have a couple of parties that have shown interest. These are all at advanced stages of discussion and we should hear about it at the moment we close the deals. We believe that we should be able to get it, when IRR is more in the range of 15% plus on the entire investment as far as Thane is concerned. Indore, we should be launching this, this is going to be a residential plus commercial around 3-3.5 lakh sq. ft. We should be launching this somewhere in quarter 2, quarter 3 depending on when do we get approvals from the relevant authority is there. The moment since this is commercial and residential; typically your equity gets released in the first 6 to 12 months after you launch it like a typical real estate property. So that is how the dynamics of both of them would work.

**Amber Singhania**

Basically in this year we are expecting to what sort of cash flow from these two projects?

**Manish Mohnot**

As I said from a combination of Shubham, Indore and Thane, our targets are to reduce closer to 250 crores of capital employed in the current year.

**Amber Singhania**

So Shubham Rs 80 crores which the private equity is bringing that will take care of the Capex along with that will we get any further money to reduce the debt on a consolidated basis or on Shubham as such?

**Manish Mohnot**

There should be some payment which would happen for debt reduction. There will be significant compliant which will go for debt reduction closer to 70% to 80% of the money



raised. The balance will be used to buy further land in the two new states which we have to still declare.

**Amber Singhania** Okay. And on the BOOT front like further investment of around Rs 500 odd crores which is required over a period of two years, how that will be funded? Will there be any money put in by KPTL standalone or will that be self-funded by their own accruals?

**Manoj Tulsian** I think BOOT front there is a combination of debt and equity. As far as debt is concerned all has been tied up so that will come through bankers. Our contribution in equity as we discussed earlier is going to be in the range of Rs. 150-160 crores out of which Rs. 100 crores is in the current year, and Rs. 50 crores will be going to the next year. This entire thing should come from internal accruals.

**Amber Singhania** And sir on your transmission side as we have very healthy order book overall in both JMC as well as in our transmission business, how is the scenario now going forward in terms of as you have mentioned PGCIL pie is shrinking. How is the scenario in our foreign other markets?

**Manish Mohnot** My colleague Ranjit earlier indicated that yes there is a pressure in terms of domestic order book because it seem less tenders, although our market share has increased but that pressure will continue we believe for the next couple of years. It is linked to the entire generation cycle which we are seeing right now. On the international side well there are tenders but there is huge competition. So the reality is yes, there is competition is going to be the ability to execute projects on time with the productivity which we desire which will help us to win otherwise competition continues to be intense and there is going to be stress as far as order book is concerned.

**Amber Singhania** Sir do we see that the growth in the order inflow might reduce or the margins from those projects might reduce going forward?

**Ranjit Singh** With global international or domestic?

**Amber Singhania** International and domestic both sir.

**Ranjit Singh** As far as domestic is concerned, as Manish mentioned as far as the order book you see some kind of slowdowns because we have seen in past also from generation to the lagged impact on the transmission part, so that lagged impact we are seeing now, as far as transmission sector investments are concerned. since we are one of the top two players in this business, our topline will definitely get impacted by this. As far as the international is concerned we do not see any slow down in the overall funding. So the overall pie will keep increasing. The second major thing that is positive for us is that we still have lot of countries where we are not present. This year we got into five new countries. We will continue to keep growing into new territories, so that will keep adding to our market share. Our market share may not go up in a specific

country but since we are geographically expanding our territory our overall top-lines will keep growing.

**Amber Singhania** And sir last two small questions, how much is the pipeline order book pending where we might see the similar kind of losses or some losses going forward?

**Amber Singhania** On the standalone number we have seen like pipeline has contributed to a large amount of segment loss. So is it a further orders pending on those parts or -

**Ranjit Singh** Railways and pipeline total order book pending as on 1<sup>st</sup> April is closer to Rs 500 crores. We do not expect to earn significant margins on it, that would be closer to breakeven actually, but if there are delays in collection you could also see some losses on those.

**Amber Singhania** Okay, and this would be completed within FY14 ?**Ranjit Singh** Majority of it yes, closer to 75% of it should get completed next year. Some portion would go to 2014-15.

**Amber Singhania** And sir just last one bookkeeping question, if I see your consolidated balance sheet of JMC, the trade receivable is showing roughly around Rs 300 odd crores at the same time and the current asset is around Rs 150 crore, this is slightly different than what was reported in the annual report at Rs 417 crores and Rs 209 crores. So what has led to this recast in these numbers?

**Manoj Tulsian** See there has been some regrouping which has been done for the previous year and this year's figures based on the auditors insistence based on some accounting guidelines which has come, on that basis only that has been done.

**Amber Singhania** Sir because this number is pretty high like Rs. 150 crores only in these two items, so could you just explain where exactly this item has gone and how the regrouping has done on that part so that it will be easier for understanding the previous -

**Manish Mohnot** I think one of the key things which has been changed based on requirement of accounting standard auditors is specific advances on projects wherever we have debtors and advances on specific projects, It has been regrouped based on the requirement of accounting standards. So that you will see again this change coming in the balance sheet whenever the balance sheet gets published. This is an accounting policy division and because of this the Rs 100 crore has get impacted.

**Amber Singhania** Okay, so this Rs 100 crores had gone to some other head or it has not been completely removed from here?

**Manish Mohnot** No, it would have been removed from both sides, advances as well as debtors.

**Amber Singhania** Okay. So subsequently the creditors might also come down?

- Manish Mohnot** No, it would have no impact on creditors.
- Amber Singhania** So that is why we are seeing the similar difference in the consolidated KPTL numbers?
- Manish Mohnot** Yes.
- Moderator** The next question is from H R Gala from Quest Investments. Please go ahead.
- H R Gala** Just two clarifications, little while ago you said the expected IRR in the case of Thane property, how much it is I missed the number?
- Manish Mohnot** We are expecting it to be more in the range of 15% plus.
- H R Gala** Okay. And you said that in KPTL standalone we will have debt level at the same level of about Rs 600 crores, how much will be in JMC consolidated and in Shubham out of the 2000-2200 crores that we are planning roughly?
- Manish Mohnot** Shubham would be more in the range of Rs 250 crores by the year end and the balance would be JMC consolidated including the road BOOT. If you break it up 600 KPTL standalone, 250 Shubham, around 400-450 would be JMC and the balance would be BOOT project.
- Moderator** The next question is from Ankita Bora from B&K Securities. Please go ahead.
- Ankita Bora** Most of my questions have already been answered. Just two things, we have been seeing delays on the Agra Aligarh road project, any reason for the same?
- Manoj Tulsian** No, there has not been any delay. There was a delay last year on account of getting the environmental clearance and all those things but after getting the clearance we are actually doing quite well on the project and as I mentioned initially also that we are looking at completing that project well within the scheduled time which has believed into us.
- Ankita Bora** And what kind of traffic are we seeing on the Rohtak-Bawal road?
- Manoj Tulsian** See as I mentioned that we are looking at a revenue of around Rs 45 crores in year one and which is our share and which is as per our initial models, at time of COD. So we are very much on target.
- Ankita Bora** I was asking about the kind of traffic that we are seeing on the Rohtak-Bawal road.
- Manoj Tulsian** We do not have the exact traffic numbers right now but we expect revenue to be more in the range of Rs 90 to 100 crores at a consolidated level.
- Ankita Bora** And can I get the debt number on Kurukshetra SPV?

- Manoj Tulsian** Kurukshetra right now our debt is close to around Rs 400 crores, our share.
- Moderator** As there are no further questions from the participants, I would now like to hand over the conference back to Ms. Bhoomika Nair for closing comments.
- Bhoomika Nair** Sir I have two questions. One is on the JMC, which I know has been discussed to a large extent, is the current order backlog, wherein margins are dragging down. How long do we see the current level of margins sustaining till?
- Manish Mohnot** See we mentioned that the pressure will continue in quarter 1 and quarter 2. From quarter 3 we will start seeing the improvements.
- Bhoomika Nair** Which would be from newer projects, which would be at better margins.
- Manish Mohnot** Yes.
- Bhoomika Nair** And the other thing was on the transmission BOOT project which was operational through the year just wanted to get a sense of what kind of revenues and EBITDA and profits you would have done from that SPV?
- Kamal Jain** From SPV we have earned the revenue of Rs 59 crores and the EBITDA margin is almost 80-90%. And the net is around Rs 9 crores.
- Bhoomika Nair** Great sir. Thank you so much. At this point, I would like to thank the entire management team for being present on the call and answering all the queries as it is been quite useful as also all the participants for being on the call. Thank you very much.
- Management** Thank you very much.
- Moderator** Thank you very much sir. On behalf of IDFC Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your line.