"Kalpataru Power Transmission and JMC Projects Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the KPTL & JMC Limited Q3 FY2019 Earnings Conference call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities Limited. Thank you and over to you Ms. Nair!

Bhoomika Nair: Thanks Bharat. Good evening everyone. On behalf of IDFC Securities I would like to welcome you to the Q3 FY2019 earnings call of Kalpataru Power and JMC Projects. The management today is being represented by Mr. Manish Mohnot, Managing Director & CEO, Mr. Kamal Jain, Director Finance & CFO and Mr. Manoj Tulsian, Whole-Time Director & CFO of JMC Projects. I will now handover the call to Mr. Manish Mohnot for his initial remarks post which we will open up the floor for Q&A. Over to you Sir!

Manish Mohnot: Thank you Bhoomika. Good evening everyone. I am thankful to you for making yourself available to attend this call and for your continued interest in KPTL and JMC. I am happy to inform you that we have delivered a strong third quarter with good financial performance for both KPTL and JMC. We have once again delivered revenue growth with sustained focus on profitability.

We are scaling up our oil & gas pipeline business, railways business, water and other infrastructure business while maintaining momentum in our core transmission and building business. At the same time we continue to focus on maintaining our debt levels and interest cost.

Getting into more details on our company wise performance, first Kalpataru, at KPTL we have achieved a Y-o-Y revenue growth of 22% in Q3 FY2019 and 20% in the nine months of this year. From business performance in this year till date we have achieved a growth of 66% in railways over 100% in pipeline and 8% to 9% in T&D business.

Our core EBITDA has grown by 21% in both Q3 and nine months of this year. Our EBITDA margin for Q3 FY2019 was 10.7% and for nine months of this year was 11.1%. We are working on various cost optimization and innovation initiatives to further improve our margins.

Our standalone net borrowing at the end of December 2018 is Rs.707 Crores as compared to Rs.872 Crores at the end of September 2018. The interest cost as a percentage of revenues continues to be around the guided range of 1.8% and we are hopeful that it might further reduce to 1.7% by the year end. Our PBT has grown by 23% with margins of 8.2% and PAT has grown by 22% with margins of 5.3% in Q3 FY2019.

Our order book as on December 31, 2018 is at Rs.14167 Crores. We have declared new order wins of Rs.394 Crores today including this our order intake till date for FY2019 is Rs.6458 Crores.

Incrementally we have L1 position of over 1800 Crores as on date. It includes T&D orders of around 1300 Crores and oil & gas pipeline orders of around 500 Crores.

For the full year we expect our total order inflows to be around 9000 Crores. On the back of our strong performance for the nine months of this year we are confident of delivering a minimum growth of 20% for FY2019 as against 15% guided at the start of the year. On the debt side also we are targeting our debt at a standalone level in the range of 800 to 900 Crores at the end of the year against the initial guidance of around 1000 Crores.

Our JMC we have achieved a revenue growth of 26% in Q3 2019 and 14% in the first nine months of the year, which is in line with our guidance. Our core EBITDA has grown by 30% in Q3 2019 and 19% for the first nine months of this year. Our EBITDA margins for Q3 2019 10.2% and for nine months is 10.3%.

Our standalone net borrowing at the end of December at JMC is Rs.657 Crores as compared to Rs.696 Crores at the end of December 2017. Interest cost as a percentage of revenue has come down to 2.8% in Q3 FY2019 compared to 3.2% and we are targeting for further improvement in this. Our PBT has grown by 51% at JMC with margin of 5.7% and PAT has grown by 55% with margin of 4.1% in Q3 2019.

At JMC our order book is Rs.9930 Crores at the end of December 2018. Our order inflow till date is Rs.5081 Crores driven by both B&F and infrastructure projects. Additionally we have L1 position orders of around Rs.700 Crores at JMC. We expect to achieve order inflows in the range of 6000 to 6500 Crores this financial year at JMC.

Our road BOT assets continue to witness good growth in traffic, our toll collection for the entire four road BOT assets excluding overloading grew by 12.3% in nine months FY2019 compared to nine months FY2018. Our average daily revenue was Rs.56.1 lakhs per day in Q3 2019 as compared to 51.1 lakhs per day achieved in Q3 FY2018; this is our share of the revenue.

Our Shubham revenue for Q3 2019 was 34 Crores a growth of 77% on a Y-o-Y basis. On a nine month basis revenue has grown by 96% Y-o-Y to 98 Crores. Our average utilization for nine months of warehousing is around 94%. EBITDA for Q3 was 9 Crores and for nine months it is 34 Crores at Shubham. Our PBT level we had a loss of 4 Crores in Q3 2019 and we expect profitability to improve going forward.

On a consolidated level at KPTL our performance continues to improve as guided. On a nine month basis our revenue has grown by 21% to reach 7316 Crores. Our EBITDA has improved by 90 bases to reach 12.7%. Our PBT has grown by 64% with margin of 6.9% and PAT by 87% with margin of 4.4% for nine months of this year. We have also appointed merchant bankers to look at options on our transmission BOT portfolio and expect the deal to be finalized in the next few months. Thank you once again, I am happy to take your questions now.

Moderator: Thank you. We will begin the question and answer session. The first question is from the line of Ranjith Shivram from ICICI Securities. Please go ahead.

Ranjith Shivram: Sir if you can touch upon like what is our guidance in Kalpataru in terms of order intake revenue and margins?

Manish Mohnot: I think our guidance for the current year is order intake in the range of 9000 Crores, which means we should be ending the year end with orders in the range of 14000 to 15000 Crores. As far as revenue is concerned we have increased our guidance for the current year to be at around 20% growth for the year, but the EBITDA margins to be in the range of 11%.

Ranjith Shivram: And how do you see the overall outlook if you want to just glance into FY2020 will this run rate of revenue growth continue or you are seeing some challenges out there?

Manish Mohnot: Lot of things have changed in the last few months on outlook on a few sectors specifically in transmission. So we have seen a lot of traction coming in transmission domestic with huge orders being planned on the green energy corridor both by power grid as well as on BOT basis. This visibility clearly gives us a feeling that we should get good orders in transmission in the next two, three, four months not beyond that and it is a big size, this size could be anywhere in the range of 15000 to 20000 Crores of tenders in the next two to three months. So given that I think our belief is that growth for the next few years would not be a challenge and also with the order book visibility growing at the range of 15% odd should not be a challenge at all for at least the next few years.

Ranjith Shivram: And lastly if you can give us the nine month and 3Q breakup, I know you do not give actual breakup like how are the colour in terms of mix of T&D and the railway in terms of revenue mix?

Manish Mohnot: I think I gave that breakup in terms of percentage in the call, but if you look at the revenue mix for nine months T&D is around 3300 odd Crores and railway and infra together is around 1300-odd Crores and biomass is around 50 odd Crores. So if you look at from a growth perspective T&D obviously grown at around 7% to 8%, railways and infra together have grown by closer to 100% and biomass is consistent at the same level.

Ranjith Shivram: And in T&D how is the domestic and overseas growth?

Manish Mohnot: Both in the same range in the range of 7% to 8%.

Ranjith Shivram: Thanks. I will come back for further questions.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Couple of questions from my end. You did mention the pipeline is pretty healthy. So how should we look in terms of orders coming in from the rail infra also, do we see after initial orders pipeline drying a bit or you think it is continuing in FY2020 as well with respect to order?

Manish Mohnot: Renu the pipeline itself from green energy is so strong that in the next three, four months whenever this order come, this should be enough for all of us at least for the few years and my own belief is post that you will also see a lot of traction again starting from SEBs, which will just get out of the election mode and private sector. So the lull, which was there for the last 8, 12 months or I would not call it lull, but there were not so many tenders, now it looks like actually in the next few years we should again see a lot many tenders coming up in TLD, both from PGCIL private sector and SEBs.

Renu Baid: So probably starting second half of the year like financial year one should see meaningful acceleration in terms of projects orders and tendering activity as well?

Manish Mohnot: I would tend to believe even the first quarter not even the second quarter I think it should all start from the first quarter of next year. The dates have come in; the tenders are all going to bid in the next few months, so I think between April to June you should see a lot of tenders coming up.

Renu Baid: So at least no impact because of elections on the near-term orders the projects that we see here?

Manish Mohnot: No I do not think so because I think our order book is not that I do not think from election perspective there will be any impact on revenue or order book.

Renu Baid: So how should you also look at given the fact that orders are coming through do you see the competitive environment relatively easing and improving to facilitate better OPMs at the gross margin level itself at project level or that continues to remain challenging?

Manish Mohnot: I think competition continues to remain challenging as it was in the past, I do not see that changing in any form, but yes realistically people have realized that there are price levels at which if you do not bid you will not make money. So while competition exist a lot of tenders still see healthy competition, it is not as bad as what it was in the past, but competition exist across all the sectors where we exist today.

Renu Baid: And third question on this side would be what could be the kind of if you look it from the perspective, so if you look we have mentioned of monetizing some of the transmission assets and the proceeds coming out of their debt this year also has been relatively lower than what you have guided, so how should one look with respect to the utilization of these proceeds and other monetization of investments, which we have in real estate as well as the other businesses there?

Manish Mohnot: Renu I would not be able to exactly guide you in terms of how the proceeds would be used. Obviously we could use some to reduce debt further and second we could use some to look at opportunities of growth domestically and internationally, but as of today if you ask me do we have a clear defined strategy for utilization of the funds I think it is too early for us to look at that.

Renu Baid: And will that mean that once these projects are monetized we will stop looking at incremental TBCB projects or you will continue bidding for more projects?

Manish Mohnot: We will continue bidding for more projects. Our philosophy is very simple that once we bid, once we construct projects if we get a good value we should look at monetizing it continuously.

Renu Baid: So that cycle of churning the assets will continue here?

Manish Mohnot: Yes.

Renu Baid: And my last question would be on JMC we were trying to the debt refinancing so what would be the progress there?

Manoj Tulsian: We just received the term sheet couple of days back only and I think because of this IL&FS meltdown lot of things got delayed, we are just going through the term sheet and possibly we will be able to at least do that one large asset.

Renu Baid: I will get back in the queue with more questions sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir just wanted to get a sense on the breakup of the 12000 Crores, 15000 Crores of orders, which are there in the pipeline is it fully from the transmission side or does it also include orders, which would been on the railways part?

Manish Mohnot: Ravi what we said the green energy corridor order pertain to transmission only. If you look at orders on railways, oil & gas pipeline all of that are again huge order including transmission international. So the 10000 Crores to 12000 Crores, which we have to bid is only pertains to green energy corridor in the next three to six months, besides that we have visibility of around 15000 to 20000 Crores of orders to be bid in the next few months across all other business, which includes railway, which includes oil and gas and which also includes transmission international.

Ravi Swaminathan: And this green energy corridor bids will it gain routed through PGCIL or is it like it will be separately bidded out in terms of like TBCB project?

Manish Mohnot: My belief from what we have read last in the media or in the news papers is that some of it has gone to power grid and some of it is moving in the TBCB space.

Ravi Swaminathan: And what would be the quantum of pipeline from SEB Sir, so has it grown, remain flattish or diminished?

Manish Mohnot: In the last three to six odd months we have seen a few tenders coming up from SEBs there were one particular SEB, which had a lot of tenders where we were not successful in winning, but getting into this quarter there are few large tenders still coming up, but I see a lot much coming up post election, which should get into Q1 or Q2 of next year.

Ravi Swaminathan: And can you give us sense on the international ordering also. So basically is it growing directionally and what are there?

Manish Mohnot: A lot of opportunities coming up from SAARC and the neighbouring countries, which includes Bangladesh, Sri Lanka and Africa, not seeing so much traction coming from Middle East still some small orders, but a lot of traction coming from South East Asia, the neighbouring countries and Africa.

Ravi Swaminathan: And these orders from SAARC countries, etc., so basically is it like it will be a kind of ordering that will last for a year or so or it can last for a much longer period like two to three years time period?

Manish Mohnot: I think the neighbouring countries like SAARC from what we have seen I think next two, three years it should be very healthy in terms of order book.

Ravi Swaminathan: Thanks a lot I will come back in the queue.

Moderator: The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: My first question is pertaining to Shubham. Sir we were expecting to put about 80 Crores in Shubham, so I just wanted to understand where are we on that and does it require that kind of funding now?

Manish Mohnot: So Kunal the funding might still be required at Shubham, we still believe we should be in a position to fund them in Q4. Our own assessment is that we still need to do this funding and at least my belief is it should happen sometimes in Q4.

Kunal Sheth: But we will require that quantum of funding in Shubham about 80 Crores?

Manish Mohnot: Yes in that range of 80 to 90 Crores the exact numbers obviously would be decided soon, but in that range.

Kunal Sheth: And next year will Shubham require any support?

Manish Mohnot: No after this funding I do not think Shubham would need any particular support at least for the next two, three years given the performance this year itself we are looking at EBITDA of 45 plus Crores and if they continue deliver what they are delivering they should be at 60 plus EBITDA in the next year and I do not think then there is any funding for anything.

Kunal Sheth: And my second question is pertaining to JMC projects this year we are likely to end with a very healthy order flow of about 6000-6500 Crores so how is the pipeline looking now and what can we expect for next year?

Manoj Tulsian: We are now seeing a lot of traction coming back on the real estate, commercial properties lot of PE investors are also doing some active participation in development and thanks to RERA. I think that the competition on the real estate construction side has reduced and developers are also looking at the best in the top three, top four contractors for avoiding delay in projects. So I can see a very healthy pipeline built up in the next one year, two years now going forward on the real estate side also, more on the commercial side and on the infrastructure side we continue to look at opportunities outside the country specially on road and water where we can see some opportunity where we are already working. Domestic also we see lot of opportunities again on water and flyovers and even road. So for next year with the type of order book what we have in the type of growth, which we are perceiving, order inflows of even around 5000 Crores, would be good enough to carry the momentum.

Kunal Sheth: And so in terms of sales what are the sales growth we are looking at for JMC next year?

Manoj Tulsian: Look we have just started our budgeting, but based on the quality of order book what we have I will continue to maintain that, I can definitely see a very robust growth to continue for next year also and I think just to give you a ballpark number anything between 15% to 20% for next year also is given.

Kunal Sheth: Sure Sir. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir my first question is since you did mention that you have appointed merchant bankers for this BOT project, so it is only for KPTL or also for JMC?

Manish Mohnot: We have right now appointed merchant bankers only for the transmission assets, which mean the KPTL assets.

Ankit Babel: And Sir to what I understand that since we have four projects to our operational one would be getting operational by March and the last in December, so the total equity investment in these assets would be around 500 Crores am I right in that?

Manish Mohnot: Yes, should be in the range of 600 odd Crores.

Ankit Babel: And what is the post tax IRR in all these projects?

Manish Mohnot: It is different for all projects, but average if you look at it is in the range of 16% to 18%.

Ankit Babel: So considering such a good IRR what kind of valuations are we seeking for these projects?

Manish Mohnot: It is too early for me to comment on valuations we have just initiated the process a month or so ago. So it will be too early for me to comment on that, I think you will have to just wait for details to come in and whenever we have all the details we will declare it to the public.

Ankit Babel: My next question is on JMC, two questions here, first again what is the status of BOT projects here, are we in talks with somebody or what is the status of the selling divestment or whatever it is in JMC?

Manoj Tulsian: We continue to look at a good partner and as and when that happens we will surely come back to you and let everybody know about it.

Ankit Babel: But it is again a long term thing or can we hear something near-term along with this KPTL BOT asset?

Manoj Tulsian: See it is difficult to put a timeline, but I think right now there is some traction we can see transactions happening and as possibly I would have mentioned in couple of calls earlier that since we have been able to now see growth on the road projects for last almost six to seven quarters, there is a good possibility of signing of deal, so I will not move that out, but just putting a timeline it is difficult.

Ankit Babel: And my second question on JMC Sir what is the status of the MP orders that water order there is a change in the government and it was a designing project so are we getting the approvals in time for the design from the new government or any delays are there?

Manoj Tulsian: We mentioned in the last call also, so we were also carrying that as one of the perceived risk and the team did a very good job. Most of the design element is already approved and we do not see much of the challenge going forward on the project.

Ankit Babel: So everything is under construction about those projects?

Manoj Tulsian: Yes, very much.

Ankit Babel: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead. Mr. Anand I am sorry to interrupt your voice, we are not able to hear you there is an audio loss, so we may not understand what exactly you are trying to ask.

Abhineet Anand: I will get back in the queue.

Moderator: Thank you so much Sir. The next question is from the line of Bhalchandra Shinde from Anand Rathi Securities. Please go ahead.

Bhalchandra Shinde: Sir this time you have not provided a bifurcation for T&D overseas region wise classification of the order book, so if you can provide rough numbers?

Manish Mohnot: Sure, I think the numbers see in terms of percentage very similar to what it was last time, but if you need to know exactly I think if you look at the breakup it was just TLI out of the TLI order book of around 2000 odd, are you talking of order intake or you are talking of order book at the end?

Bhalchandra Shinde: Order book of T&D overseas.

Manish Mohnot: If you look at T&D as a whole, around 36% to 37%, is international, 23% is domestic, out of the international 45% is Africa, 15% is CIS, North America and Europe, 12% is MENA and 29% is SAARC.

Bhalchandra Shinde: And Sir bifurcation of T&D domestic, PGCIL, SEB and private?

Manish Mohnot: PGCIL is around 28%, SEB is around 40% and private is around 30%. Private includes Kalpataru also.

Bhalchandra Shinde: Yes and Sir in Shubham Logistics relatively if we see our performance on sales side this has been improving and on the PBT and PAT also for first half we were able to breakeven, so what happened exactly in third quarter why we were not able to achieve that kind of a profitability what we achieved in first half in PBT, PAT?

Manish Mohnot: Normally third quarter end Shubham is always in quarter where you see warehousing revenue slightly dipping as compared to quarter one and two because that is when the crop, the new crop rabbi comes in to January, February and the whole crop you see coming out in October, November, December that is always the case. So from that perspective you always say Q3 would be slightly subdued as compared to one and two, but while we say so as far as what we had budgeted and targeted we are on track on that both for the quarter and for the year.

Bhalchandra Shinde: And Sir regarding the pipeline majorly in oil & gas, do you see if traction improving for those ordering and do we expect any impact because of the in elections or it will continue to be in a good way order book?

Manish Mohnot: As of now we see a lot of tenders coming up on oil & gas division while we speak in the next few months we have tenders worth 2000-3000 Crores to be bid. We are also continuously exploring opportunities in international market, so from our own perspective next two, three years we should not see any challenges in growth as far as oil & gas division is concerned.

Bhalchandra Shinde: Thank you very much.

Moderator: Thank you so much sir. The next question is from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.

Subramaniam Yadav: Sir my question pertains to JMC. Sir despite of improvement in the road project to around 56 lakhs per day, still our investment has increased Q-on-Q by 11-odd Crores so how do we see this run rate going ahead in next quarter and maybe next year?

Manoj Tulsian: See for the first nine months the total investment which has gone into this BOT projects is around 33 odd Crores and out of this almost 28 Crores is towards repayment. At the beginning of the year we had given a guidance that possibly we would need to infuse anything between 60 and 65 Crores this year, but I think the way it looks like the growth is better than what we have achieved and maybe we just need to infuse another 17-18 Crores in Q4. So we are better than the guidance what we had given at the beginning of the year.

Subramaniam Yadav: So this kind of number would continue next year also going ahead?

Manoj Tulsian: Well next year also right now at this point of time given that we continue with all the four projects we might have a repayment of around 60 odd Crores and that might be the need of the hour, but as I mentioned just sometime back in the call that we have also got a term sheet now for refinancing of one of our large assets, but this numbers will undergo some change I have all those numbers so I am talking on the basis of added basis.

Subramaniam Yadav: And Sir on the L1 front in the JMC order book we have 700 Crores, so that is pertaining to international road project only right?

Manoj Tulsian: No that we had removed from the L1 position almost I think two quarters back.

Subramaniam Yadav: This L1 is?

Manoj Tulsian: These are multiple orders; there are three orders in this.

Subramaniam Yadav: Have we included the recent Odisha order in this water project order?

Manoj Tulsian: Yes that one is included in this.

Subramaniam Yadav: And what about inflow you said around 6000-6500 order likely would this continue this run rate in FY2020 or are we looking at a higher inflow rate in FY2020?

Manoj Tulsian: Well if you really see our appetite is to grow at anything between 15% and 20% keeping that in mind I think this year possibly we will end up at around 10000 Crores order book and taking the growth for next year if we are anywhere around 11000 Crores at the end of next year it will be a good number again to give us a similar 15% to 20% growth in the subsequent year. So I think that is the type of target, which we are looking at, something better comes up then possibly it may add to growth further in for one or two years.

Subramaniam Yadav: And Sir have we started booking revenue from the MP irrigation project 1600 Crores project?

Manoj Tulsian: No, not now only some billing has been done very miniscule billing on some designing element.

Subramaniam Yadav: So can we see some numbers in Q4 good numbers?

Manoj Tulsian: Not good numbers we may just start doing some sales maybe in March or the most of it may start from April.

Subramaniam Yadav: Great Sir. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Jaikant Kasturi from Dolat Capital. Please go ahead.

Jaikant Kasturi: If you could comment on the rail EBITDA and the T&D EBITDA margins and in terms of your current networking capital days for Q3 and how do you likely to see it for FY2019?

Manish Mohnot: Sure so as far as margins are concerned T&D margins are in the range of 11% to 12%, oil and gas margins also continue to be in the same range, the railway EBITDA margin are more in the range of 8% to 9%. As far as working capital days are concerned our networking capital days is around 94 days at the end of December and I believe we should be in the range of 90 to 92 days at the year end.

Jaikant Kasturi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ranjith Shivram from ICICI Securities. Please go ahead.

Ranjith Shivram: Just wanted to understand is there any forex related gains, losses in this quarter?

Manish Mohnot: So, Ranjith not very significant but for the quarter we had 5 to 6 Crores worth of gain in this quarter and overall for three quarters we have gain in the range of 20 Crores for nine months, but not very significant.

Ranjith Shivram: And we had seen the gross raw material to sales increasing, so is there anything to do with the mix or is there any commodity price increase impact in that?

Manish Mohnot: I think the entire thing has got to do with the mix of revenue because revenue is more coming from railways and oil and gas as compared to the previous year and where the raw material component is much lesser than the transmission side, so it is entirely to do with the mix of the revenue.

Ranjith Shivram: So still we are confident that the 11% margins can be maintained for the full year?

Manish Mohnot: That is our projections for the year we should be in that range.

Ranjith Shivram: And we have given this balance equity commitment of 137 Crores for the transmission asset, so anything, how much will be this year will there be anything more?

Manish Mohnot: I think it might be plus or minus around 15-20 Crores more, but not significant in the current year, the balance portion would come in to the next year.

Ranjith Shivram: So how much will be next year?

Manish Mohnot: In the range of 100 to 125 Crores.

Ranjith Shivram: And this is for the transmission assets right?

Manish Mohnot: Yes, this is for the transmission assets.

Ranjith Shivram: Thanks.

Moderator: Thank you. The next question is from the line of Suchit Gavaskar from ICICI Lombard. Please go ahead.

Suchit Gavaskar: I want to know the monetization of transmission asset through which route?

Manish Mohnot: No we are looking at exit options there are no plans of looking at Invit option as of today.

Suchit Gavaskar: But all the transmission assets, which are either under construction or only completed?

Manish Mohnot: The two of them are already completed, the third one gets completed in the next few months, and the fourth one got onto July 2020. Our plan as of now is to look at all the four assets together although the completion responsibility will be completely with Kalpataru power.

Suchit Gavaskar: And you have got good interest in those assets?

Manish Mohnot: The process has just started it would be too early for me to comment on that.

Suchit Gavaskar: And one thing I wanted to know regarding our order book so what percentage of guarantees, which are we are required to provide for order book?

Manish Mohnot: Typically our performance bank guarantee is in the range of 10% for majority of our orders and if we have advance then we have advanced bank guarantee also will depends on what percentage of advances there on a project.

Suchit Gavaskar: The average guarantees outstanding on this order book would be around what would be the amount?

Manish Mohnot: No, you cannot quantify the exact average amount because you have guarantees, which are very different for different projects if we need the exact details of guarantees outstanding you might have to contact our finance division later on.

Suchit Gavaskar: Thank you.

Moderator: Thank you. The next question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Sir the interest cost as a percentage of sales we have guided 1.8% so in FY2020 are we expecting further reduction in the interest cost as a percentage of sales?

Manish Mohnot: As a target you definitely look at it, but if you ask me realistically it may going to be slightly difficult because as of today interest rates are going up last six months we have already seen them going up as compared to the previous year. From a debt utilization level obviously we would be targeting lower debt utilization, but the overall interest cost difficult for us to guide as of today, our target would definitely be to reduce it further.

Kirti Jain: Sir other income came of actually anything on a sequential basis anything, which was lower Sir sequentially?

Manish Mohnot: No I do not think there is anything significantly lower I think it was similar it is just that at some point of time there is some scrap sales, which happen and some interest income, some dividend income, but otherwise there is nothing significant, which has changed.

Kirti Jain: Sir what would be the capex for FY2019 and FY2020 Sir in the KPTL standalone?

Manish Mohnot: We are targeting for capex in the range of 125 Crores for 2019 and we might be in the range of 75 to 100 Crores for 2020, but we are still not done our final budgeting for 2020 so early for me to conclude on that.

Kirti Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: On JMC I just wanted to know what would be the nine months consolidated sales EBITDA PAT?

Manoj Tulsian: You want nine months?

Abhineet Anand: Consolidated numbers for JMC Sir.

Manoj Tulsian: I can give you the sales and PAT. Sales is 2427 and the PAT is around 41 Crores and overall EBITDA not the core EBITDA but EBITDA it also around 327 Crores.

Abhineet Anand: And in terms of growth for next year you said somewhere around 15% to 20% given the book that we have on JMC it was very conservative, is it conservative or a realistic number that you have guided Sir?

Manoj Tulsian: Well actually look since the budgeting has just started I have just given a very initial indicative number, if you ask me personally yes the order book is very good, the quality of order book is very good so I agree to you we would again be looking at anything around 20% growth next year, but wait for sometime let the budgeting happen and we will come back by next quarter on a firm number. So last year we grew at around 18%, this year again we said that we will grow between 15% and 20%, it looks like we will be on the higher end of our guidance and next year also possibly we look at another 20% growth, but since somebody asked me at the very beginning and we have still not done our budgeting we are slightly conservative on that.

Abhineet Anand: And my last question on KPTL. See first few quarters of this year we have been indicating that T&D domestic was not doing that great and on that we are typically looking for a 15% type of growth. Now with the traction that we have seen, which we indicated at around 10,000-15,000 crore ordering is expected to happen in the next few months and a strong ordering also expecting in railways and T&D can we see a higher growth rate for the next in the medium-term?

Manish Mohnot: See as of today based on the order book what we have I think we are confident that we should be in the range of 15% range for next year, it would be too early for us to comment on growth beyond this at this stage, but hopefully by the end of the year we will have a lot more clarity on that.

Abhineet Anand: Thanks.

Moderator: Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: My questions are with respect to JMCs three questions. One was given the fact that we have already started working in these MP irrigation projects would you be in a position to kind of give us a sense on how are the working capital cycle be different for this project when compared to our buildings and factories?

Manoj Tulsian: See in terms of payments what we have understood from when we have done our initial rating even before taking such projects the payment cycle is very good there and since it is a large project we will be very cautious at every stage on a monthly basis. I think right now what it looks like the payment cycle will be somewhere around maximum 45 days.

Prem Khurana: Sir but given the fact that size is can I have break for this project almost Rs.1600 odd Crores so would you kind of maintain higher inventory level when compared to some of these buildings and factories because there we would not be required to have this kind of inventory that you would ideally need to take care of a project, which is almost around Rs.1600 odd Crores?

Manoj Tulsian: See this project has to be delivered in around 42 months. So even if you see that we are still delivering 42 months the run rate somewhere comes to around 40 crores, keeping that in mind I think we are actually setting up a separate team for this so that we have a very tight inventory management on this. So the cycle would be that we are able to collect our money within these 45 days from billing and we are able to fund the project with maximum one month of working capital involvement from our side.

Prem Khurana: How much of your nonfund base limits are utilized and given the fact that it has been a very good year this year in terms of inflows and again next year we are targeting somewhat similar kind of inflows and since we want to kind of keep the growth momentum going, would you require kind of seek additional limits and in terms of nonfund based limits and how easy or difficult is it to get nonfund base in these stage after the kind of years that we had had in the recent past?

Manoj Tulsian: We were apprehending these type of growth and last year only we had gone for enhancement, though we are very in a comfortable position we still went for enhancement and we got the enhancement everything got tied up and again this year we have gone for enhancement, the assessment what is under preparation and it will get approved possibly in the next one month or so. We are not finding any real such difficulty because of the numbers and the balance sheet has been managed well and next year again we will go for the next round of enhancement.

Prem Khurana: And just two more, one was on margin side, for the nine months it was around 10.3% kind of number, which is not significantly, but then slightly lower than what we were guiding for and the range was 10.5% to 10.8% kind of number would we be able to close it with anywhere between 10.5% to 10.8% or 10.3% the number that ideally we need to work with?

Manoj Tulsian: Well depending on Q4 I am hoping that Q4 also turns out to be good possibly we will be able to touch somewhere around maybe 10.5%, 10.55% the way it looks like.

Prem Khurana: If you could share capex number for the quarter or for nine months?

Manoj Tulsian: Capex this year we have already done nine months around 100 odd Crores and we are looking at doing another 30-35 Crores in the next three months including January.

Prem Khurana: And this would take care of our MP requirement as well right?

Manoj Tulsian: Well in MP look water projects we do not need much capex so just the capex is for other projects.

Prem Khurana: Thanks and that is it from my end. Thanks a lot.

Moderator: Thank you. The next question is from the line of Alok Deora from Yes Securities Limited. Please go ahead.

Alok Deora: Sir my question was for JMC. Just wanted to understand the infra order book here has been quite robust and increasing so what is the opportunity there now and what is the bid pipeline like are you also looking for this HAM projects in the road segment in the domestic market?

Manoj Tulsian: See the pipeline is robust we continue to see lot of bids all in roads, flyovers and waters and we have been continuously bidding also it is just that we have not been very successful because of the competition intensity, but I think now with the given situation the way things are in the next one year we will have a very good chance with a very strong balance sheet and the way we manage things to get a few orders because there are concerns, which people have been facing in terms of managing the financial side of the balance sheet and also this nonfund base limit, so we have a good chance to win some of these projects in the next year so the strike rate can be much better and possibly we can even win it at good margins so that is how we are looking at things and strategically it looks like till date the strategy has worked well and possibly it will work well next year also. Then international also though this year we have not been able to see any success, but there are lot of orders, which is there in the pipeline in few of the countries and we are working very closely on that so we are hopeful that next year we are able to win one international large order also.

Alok Deora: So when we talk about the domestic roads segment so are we looking to bid and because there are lot of projects, which are expected to come through in February so are we looking to bid for those and would we be focusing on the EPC segment or we open for HAM as well?

Manoj Tulsian: Sorry so last time I did not answered your question on HAM. As a company we are not looking at bidding for any HAM projects and selectively we are looking at all the bids so some of the bids, which are there in February we are going ahead on a selective basis on a case-to-case basis, but no bidding on HAM.

Alok Deora: Any particular reason for not bidding because we already have some BOT assets so any particular reason we are not looking at HAM?

Manoj Tulsian: See I think we have internally discussed and we need to be very careful about our capital allocation plan, we have been investing lot of money in the last four to five years even on operating capex, which is equipment. Just to give you a number we would have invested close to around more than 400 Crores in the last five years and built up a good asset base for our internal equipments both on plants and machineries and as well as the latest technology form works, which I think is working very well and synergetic in terms of our growth perspective then since we only have four road projects and as a management we have already decided that given a good opportunity we will exit all these roads there is no point now allocating the capital around equity where we feel the return will be less than what we are making right now on our EPC business and since we already making around 20% return on capital employed on the EPC we feel it is better to only look at EPC.

Alok Deora: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities Limited. Please go ahead.

Aditya Mongia: I had two questions, first one was to Mr. Mohnot, now if I were to be summarizing the call thus far essentially you are quite positive on the way demand is shaping up highlighting assets on the verge of being sold on the T&D side and in some ways you are also highlighting that interest cost will not take you more incrementally, I just sort of get your view of what can let us say go wrong from here on, so what is the thing that you are more concerned about that at this point of time?

Manish Mohnot: Clearly one of our largest concern continues to be the volatility whether it is on commodity prices or on currency rates or on any of this fixed price versus variable price projects because today 50% of our order book is fixed in nature so clearly one of our concerns continue to be the volatility, which is a challenge. Second continues to be the competitive pressure, which you see at times, the times and some of the tenders which I said earlier the competitive pressure there are few peoples who bid at price levels, which become unrealistic and then you gain get into those levels of stress, which are avoidable and added to that a few clients also have this option of reverse options once you bid for it and then there is a option, which is also a challenge in times in terms of deciding what is the level at which you should be and you should not be. So that is the second challenge in terms of what we are doing and third I think it is again important with growth to maintain the debt levels, which we have been very focused in the last three years if you look at the last three years while we have grown we have invested in TL BOOT and then all of that our debt levels have been very, very I would say within the optimal levels, which we had planned. So it is important for us to also look at growth without really increasing the debt levels so this would be my three priorities getting into the next year, which are big challenges for us.

Aditya Mongia: Just a related question would let us say 40% plus share of Africa in the backlog will be worrying to you at this point of time?

Manish Mohnot: Yes it is around 40% of the international order book.

Aditya Mongia: Will that be worrying to you at this point of time such a less concentration?

Manish Mohnot: No I do not think so because all of this Africa is primarily funded from a credit perspective it is all funded by one of the large multilateral funding agency, from a delivery perspective we have been delivering in Africa for more than a decade now and a lot of this countries we have done more than a few projects it is not more than that. So I do not see that as a worry at all, to put it differently I think that is a big focus area for us for growth not only for transmission but also for railways and oil & gas. So from our perspective that one big geography where we have a lot of focuses getting into those for the next few years.

Aditya Mongia: The second question was both to you and Mr. Manoj so essentially from a perspective of water and irrigation will you be able to quantify a market like today and are you seeing big growth happening in those areas at this point of time?

Manoj Tulsian: Well we do not have the market size because these are very state oriented development and like we have seen in the last two, three years MP has been very aggressive marching ahead on these projects and now we can see Odisha. Also we are getting signs from some of the southern part of the country also that they will also open up a lot of opportunities on this segment. So we see a lot of opportunity I would not be able to quantify the numbers at this point of time, but this will be a continuing opportunity in this country I think for next minimum ten years.

Aditya Mongia: Last question from my side if I may. This would be on real estate, well it is urban commercial real estate, now you kind of mention that you have seen some traction happening on urban commercial real estate side obviously from our sides also we are seeing we can see rates now kind of coming more manageable would you suggest that this is something, which is happening on a broad base this is across the country or are the pockets of growth that you think in urban commercial real estate?

Manoj Tulsian: No again we have still seen this in pockets only and we are especially again bullish on the southern part of the country in Bengaluru and Hyderabad, Chennai and also we are seeing some traction now in Pune so these are belts where we are concentrating. North & East still is not picking up.

Aditya Mongia: Got that. Those are my questions. Thanks a lot for your response.

Moderator: Thank you. The next question is from the line of Rachit Kamat from Anand Rathi. Please go ahead.

Rachit Kamat: Sir I just wanted to know last quarter we had said that our debt would be the ending the year end that by around 7.5 billion in JMC around the standalone level right and right now you were already at that level. So I just wanted to know is there any scope for this to increase or stand stable over here, given the fact that our MP orders also you said that it is not in gain and still traction?

Manoj Tulsian: No I think whenever we are mentioning these numbers we are mentioning at the net debt level, at net debt level we are right now at 650 odd Crores, which is same as last quarter.

Rachit Kamat: You said 7.5 million net debts you will be at FY2019 end?

Manoj Tulsian: Year end, so I think the way we have managed it I think we will be less than that only.

Rachit Kamat: And on FY2020 levels you see any traction on this number?

Manoj Tulsian: Again let us do some budgeting exercise on this because this year also we have grown well and we have been able to still keep a good control on the debt. Our target still is to maintain a debt level, which is in and around this, which is very optimistic target so I think next year also from the closing numbers the debt level will for sure not move up by more than 100 Corers that is our internal target to manage it within those numbers.

Rachit Kamat: Sure Sir. Thanks a lot. That is all my questions.

Moderator: Thank you. The next question is from the line of Nishant Bhalrecha from Equirus. Please go ahead.

Nishant Bhalrecha: I have just one question, Sir on the T&D side for what value of projects we have put our bid and what happens if these projects are not awarded before the code of conduct?

Manish Mohnot: We have not submitted a lot of bids as of now on the T&D side except for a few bids at a few SEBs all the tender I expected in the next few months I do not think as far as this tenders are concerned there will be any impact of code of conduct because Power Grid as a separate company, which float this tenders and both REC, PFC also so my personal view there will be no impact of code of conduct on these tenders.

Nishant Bhalrecha: Thanks a lot.

Moderator: Thank you. The next question is from the line of Jaikant Kasturi from Dolat Capital Private Limited. Please go ahead.

Jaikant Kasturi: Sir in terms of your rail and pipeline orders how do you see it in next two years like if you can give some kind of a colour on it and in terms of your state SEBs as you said you would be seeing major traction, which states do you see it?

Manish Mohnot: So there is oil & gas pipeline we seeing a lot of orders tenders as of now and we see a lot of opportunities coming up in the next 6 to 12 months so I had guided earlier also I do not see a challenge in terms of growing that business by at least 15% to 20% for the next few years given our visibility of order book. As far as SEBs are concerned, as I said earlier we have not seen much traction except for a few SEBs in the last few quarters, but I expect a lot more traction to come post elections at least six, seven SEBs we now have used plant in terms of transition and we should see all those orders coming in quarter two and three of next year.

Jaikant Kasturi: Sir in terms of which states do you see it?

Manish Mohnot: I think it is more than southern states than there are a lot of opportunities in the North Eastern states, North Eastern Southern and East would be where there will be a lot more focus.

Jaikant Kasturi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Just a followup sir in KPTL Sir in overseas markets all our business in dollar terms or it is in local currency terms?

Manish Mohnot: Majority of our billing more than 90% would be in dollar terms we might have some billing in local currency, which is more for the local construction cost which we incur in those countries.

Ankit Babel: So we would be hedging everything what is our currency rate?

Manish Mohnot: Yes we have the risk management policy by which majority of our exposures are hedged at a given point of time.

Ankit Babel: And my one question is on JMC Tulsian Ji order inflow this year has been very good and as you mentioned that the prospects are also very good so Sir is there any thought to increase our mid level margins as our current level margins are still less than some of your peers who are doing some 13%, 14% margin?

Manoj Tulsian: When you look at a 13-14% margin you look at some of your specific cases who are only operating in one particular segment, when you look at the mix of JMC we are now sizable both in terms of infra as well as EPC civil construction so the margin would be slightly different because what happens in infra business is that 9 out of 10 cases there would be delays will happen and then there will be a aorta of claim also and as a prudent and conservative policy we book all the cost of delays and everything we take those hits in the margin as and when it happens and the claims only get accounted when we win it at the High Court level, so there is a good amount of result, which gets created in terms of this claims, which will come into future P&L.

Ankit Babel: So how much will it is as on date cumulatively?

Manoj Tulsian: We have not spoken about that number to everybody, but whatever we have already won at arbitration level is close to around 200 odd Crores, which we have won at arbitration level we have not yet taken in to our profit and loss account and in most of the cases that the department will go to High Court and we are very confident that once we win those claims at arbitration level again 99% chances we will win it at High Court level, as and when we get a clearance from High Court we will start booking those in P&L.

Ankit Babel: 200 Crores?

Manoj Tulsian: Yes 200 Crores. So those are the upsides, which will come in blocks and pieces from time-to-time.

Ankit Babel: And Sir is there any clause of retention money in our MP project?

Manoj Tulsian: I think there is a 2.5% clause we will have to check and I will get back again possibly maximum 2.5% if I recall or maybe no retention any of the two.

Ankit Babel: If it is cash retention or you can provide a bank guarantee?

Manoj Tulsian: No so that is why I am saying that since I am not very sure on this it is a specific query we will come back to you on this.

Ankit Babel: No issue Sir. Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to Ms. Bhoomika Nair from IDFC Securities Limited for her closing comments.

Bhoomika Nair: I would just like to thank everybody for being on the call and especially the management for giving us an opportunity to host the call and answering all the queries. Thank you very much sir and wish you all the very best.

Manish Mohnot: Thank you.

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