"Kalpataru Power and JMC Projects 3Q FY2017 Post Results Conference Call"

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ANALYST: **MS. BHOOMIKA NAIR – IDFC SECURITIES LIMITED**

MANAGEMENT: **MR. MANISH MOHNOT – MANAGING DIRECTOR – KALPATARU POWER TRANSMISSION LIMITED**
MR. KAMAL JAIN – DIRECTOR FINANCE & CFO - KALPATARU POWER TRANSMISSION LIMITED
MR. MANOJ TULSIAN – DIRECTOR (FINANCE) & CFO – JMC PROJECTS

Moderator: Ladies and gentlemen, good day and welcome to Kalpataru Power and JMC Projects 3Q FY2017 Post Results Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in listen only mode and there will be an opportunity to ask question 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. Welcome everyone on the Third Quarter FY2017 Earnings Call of Kalpataru Power Transmission and JMC Projects. Today, the management today is being represented by Mr. Manish Mohnot, Managing Director, Mr. Kamal Jain, Director Finance and the CFO, and Mr. Manoj Tulsian, Director (Finance) and CFO of JMC Projects. I will now handover the call to Mr. 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 to all. We have declared the third quarter and nine months results of both KPTL and JMC and the copy of results, press release, and presentation have been mailed to majority of you all.

Before proceeding for the Q&A session, I would like to take you through the key highlights of the results and recent developments. As informed earlier and targeted, we have achieved significant growth in revenue & in the profits for the quarter as well as for nine months. We are on track for our projected growth of 15% to 20% for the current year.

Current year till date we have announced orders of over 5000 Crores and in addition to this we are L1 in orders of over 3000 Crores for KPTL. On the back of these order inflows, we will achieve a healthy growth in the next year and we hope to keep similar levels of operating margins.

In JMC we had some execution issues at some of the projects, which were in the past, now we have build a very healthy order book with right mix of government and private projects and some international projects, which gives us good visibility for the next few years.

In Shubham we had a big impact because of demonetisation and a lot of our warehouses were at a very lower utilisation level. We have not seen things improving till January end. We hope things would improve getting into February or may be early next year and it might take some time for Shubham to turn around as compared to what we had projected at the beginning of the year.

With this update, I would like to open the floor for Q&A session.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We will get the first question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good evening Sir. Good to see your execution picking up now with new orders. Sir, if you can just help us understand a little with respect to what were the individual segment wise growth drivers from T&D as well as from infra and also how has exports done in this particular quarter in YTD?

Manish Mohnot: Growth drivers particularly if you look at transmission was primarily the order book which we picked up in the last quarter of the previous year as well as the current year first quarter. Infra, Railways and Pipeline, you know, we had already projected that we will grow given that we had order book visibility. So from order book, I think, effectively if you ask me the growth it was primarily driven by one the three months of good working season and the good order book, which we already had.

Renu Baid: How was the broad sales mix if you can share a little on that?

Manish Mohnot: Transmission international would be around 50% to 55%, transmission domestic would be around 30% and infra, railway and pipeline put together would be around 15%.

Renu Baid: When we look at the pipeline of business though in the last quarter we had seen slippages of order to the fourth quarter, but if one has to look for the next 12 to 15 months, how is the order pipeline with respect to finalization looking both for EPC based projects in the transmission space as well as BOOT/BOOM assets?

Manish Mohnot: So we will have to divide this into all the key segments. So if you look at transmission international, we are seeing a lot of traction coming out of Africa and CIS and some of those countries and Southeast Asia. We are not seeing much traction coming out of Middle East. We are bidding for a lot of tenders but they are all getting postponed, so international lot of traction in Africa and CIS and Southeast Asia. Domestic PowerGrid a lot of tenders got delayed and we expect some big tenders to come or we have bid for a lot of tenders in the last few weeks so PowerGrid hopefully we should see some orders coming into either in March or early next year. They have also bid for a lot of BOOT projects and if they win that then we might have some more tenders coming from PowerGrid. SEBs we are seeing a lot of traction because there are six to eight active SEBs where we are seeing some traction coming in and that is an area which we have been focusing in the past and we will continue to focus. On the BOOT side, there have been at least four or five big tenders, which have been announced by REC/ PFC over the last few weeks, and I think that can be a good growth driver for us for getting into the next few years working for private sector parties. On the railways and infrastructure, railways I think all of us have seen enough news items about it and we are seeing the action on the ground also. There are huge tenders to be bid, and railways itself we are today L1 in 500 Crores plus. So railways itself has a huge opportunity and pipeline while it is not as bullish as railways are but still we are seeing traction. We believe that at least it can easily grow by 15% to 20% next year.

Renu Baid: Sir, one more thing on the working capital and debt side, if you see overall we have been able to contain the debt levels, so do we expect further improvement in working capital even as fourth quarter will be seasonally heavy quarter for execution?

Manish Mohnot: So we have targeted that we would not have debt exceeding 700 Crores at the end of the year and that is a target we are keeping as of now also. I definitely expect that we will improve on whatever we have targeted, but as of now we are keeping the same target for the year-end.

Renu Baid: Sir, if I can ask one on Shubham if you can share, though you mentioned it will take time to turnaround, but what is the broad sense as in after demonetization and GST coming around will the time to breakeven further take longer or probably at least on topline side we will start seeing traction coming in?

Manish Mohnot: Renu, I do not expect traction to come into this quarter for sure because today our utilisation level from 60% to 70% has come down to 40% to 50%. Now obviously there will be one more crop season Rabi which will start in February and then we have April. So we will have to just wait for what happens by February and March and April would be very critical. So personally Q4 I do not see significant traction coming, yes, may be some small amounts here and there, but significant should start coming into the first quarter of next year. Do we have a great visibility on it? The answer right now is not very good visibility as we have for KPTL and JMC but we are hoping that things will improve significantly, but we still do not have clear visibility whether it is going to be April to June or whether it is going to be Q1 or Q2 we still do not have that.

Renu Baid: Right but no headwinds with respect to GST could be expected on this, so probably you think there could be some hiccups till in the first half of next year as well?

Manish Mohnot: I do not think GST would have major impact on this because agriculture commodities and some of this anyway we had no impact of GST. My personal view it would not but at the same time, using GST as the base we will continue to explore non-agricultural commodities also, because if your utilisation levels of 40% to 50% we cannot just keep on waiting. So if we have opportunities for non-agriculture we will look at that also and for that also we have built a small team, which has started looking at it. We have already got some big chunk of fertilizers which has come in, and now we are looking at other options also.

Renu Baid: Thank you so much. I will get back with more questions later. Thank you and all the best Sir.

Moderator: Thank you, Ms. Baid. We have our next question from the line of Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Good evening. Sir, with respect to one of your projects, I think you recently bid one project in JV with Techno Electric. Is it the bid still I think has come in your favour and Techno? So can you give us a little bit your thought process, is it only because earlier our thought process take a one project sort of in the BOOT mode, but now the trend seems to be more of SEBs and BOOT even from the SEB side. So is there something apart from this project also we will be bidding for more BOOT going forward?

Manish Mohnot: We will be very selective in bidding for BOOT. We will continue to explore opportunities as long as we get our returns and as long as even it comes out a free cash flow, so right now whatever exposure we have in BOOT we are very clear that the equity commitment can be met out of a free cash flows of 2016-17 and 2017-18, so we would obviously be growing keeping our cash flows in mind and as long as we get a good return on it.

Nitin Arora: How much equity we have invested in our third BOOT project of West Bengal?

Manish Mohnot: It will be closer to 100 Crores.

Nitin Arora: How much is left?

Manish Mohnot: Closer to 140 Crores is left.

Nitin Arora: Which would go into the next year only?

Manish Mohnot: Yes.

Nitin Arora: Now given the thought process now is that no doubt you have been a lot of companies are being saying that state is going to be the driver for the capex in the transmission side. When we look at the balance sheet not for the SEBs rather for the states who has taken away from their side do you see a chance that if you can highlight a little bit what is your exposure to SEBs in the order book today as of now and how much you are envisaging let us say given the capex is going to be done by them, do you see a chance of advances not being given, we have seen for a few states not restricting advances there and the debt levels sort of because of the nature of the business, the debt levels will start inching up a little bit just to manage our working capital size?

Manish Mohnot: I think you have a valid point that the health of SEBs is not at its best levels although they have got some incentives from governments in the last few years but if you look at the SEBs where we are working I do not think there is an issue in terms of payment. There could have been some delay but they have been paying with some delay plus a lot of them are funded by PFC, REC, KFW and others, out of our order book today of 8300 Crores our domestic is only 33% out of which SEB is a very small 2% to 3%, but while we say so there is a lot of work coming up and we will focus on SEBs.

Nitin Arora: Sir, your guidance remains intact even for the FY2017-18 to grow by 15% to 20% if I am not wrong?

Manish Mohnot: Yes, for 2017-2018 also we are targeting a 15% to 20% growth on topline with a similar if not better growth on margins.

Nitin Arora: Thank you very much.

Moderator: Thank you Sir. We have our next question from the line of Ankit Babel from Shubkam Ventures. Please go ahead.

Ankit Babel: Good evening Sir. Sir my question again was on the growth guidance, which you just mentioned. At the beginning of the year we were expecting 25% but due to some delays in the international projects you in the last quarter you mentioned you will be growing by 20% and now it is in the range of 15% to 20%. So just wanted to understand has there been any more delays from any infra side?

Manish Mohnot: I do not think there have been delays from as far as new orders or any of those who are planned, but slight delays happened because of whatever we have seen in the economy over the last few months starting November and December, but on an overall, we are still targeting closer to 20%. The reason we are saying 15% to 20% is just whether it is going to be 18%, 19% or 20% is where the question is, but definitely it would be closer to 20% and not closer to 15%.

Ankit Babel: Sir, sequentially your order book has declined, so the calculations suggest that in Q3 you did not receive any orders so am I right in that calculation?

Manish Mohnot: Yes, you are right. We were L1 but we got some very small orders plus there were some changes in some orders. Some orders reduced and we got some orders, but yes Q3 we did not have significant order inflows.

Ankit Babel: Sir, if we have to assume what could be your order book at the end of the year, what are you targeting now?

Manish Mohnot: We are targeting anywhere between 9000 and 10000 Crores, opening order book for 2017-18.

Ankit Babel: 9000 to 10000 Crores, so this will give you a 20% growth next year is what you are expecting?

Manish Mohnot: With the 9000 to 10000 we should easily achieve a 15% to 20% growth next year.

Ankit Babel: But Sir, just wanted to know I mean, since the shifting of the projects which were expected to come up in this year and now coming slightly later so do not you feel that the growth in FY2018 could have been better off, as of shifting of revenue from this year to next year?

Manish Mohnot: Yes, it should have been but a lot of things have also happened in the current year, so if you look at the transmission domestic, you look at PowerGrid, we have not seen many tenders, which have come, and a lot of them have got delayed. If you look at SEBs also some things have got delayed. So from that perspective the order inflow gets delayed automatically the revenue gets delayed. So, yes eventually it would come in, but whether it comes into 2017-18 or 2018-19 is something, which we will have to wait and watch, but for the current visibility 15% to 20%, definitely can happen.

Ankit Babel: Sir what was your order inflow in the first nine months in totality Sir?

Manish Mohnot: 5000 plus Crores.

Ankit Babel: In the first nine months?

Manish Mohnot: Yes.

Ankit Babel: Sir in that case, you have an execution of around 3400 Crores, inflow is 5000 Crores, then how come the order book is same at 8300 Crores, which was there in the beginning of the year? It should be higher?

Manish Mohnot: At the beginning of the year it was not 8300 Crores. At the beginning of the year it was lower than that. If you look at April 1, it was lower than that. Our order inflow has been closer to 5000 and in the beginning of the year the order book was lower than 8300 Crores.

Ankit Babel: I will check it. Sir in this quarter what kind of order inflows you are expecting for the fourth quarter including the 1600 Crores, which you have already received?

Manish Mohnot: I think we are L1 in 3000 Crores and I expect at least 1500 to 2000 Crores of that to get converted.

Ankit Babel: Sir, last question will it be fair to assume that there would not be any major increase in the interest cost next year going forward, in absolute terms?

Manish Mohnot: Our target is to keep interest cost at a minimal and we have achieved what we had planned at the beginning of the year, we have already achieved that. So we want to keep our interest cost at less than 2.5% of our revenue and I am sure we are trying to make sure that that happens.

Ankit Babel: Thank you Sir.

Moderator: Thank you Sir. We have our next question from the line of Pawan Parakh from HDFC Securities. Please go ahead.

Pawan Parakh: Sir, my question is on the cash outflows you are looking at in FY2018 for your third and fourth BOT projects, fund infusion in JMC, Shubham and standalone capex.

Manish Mohnot: You are right. So third BOOT yes, fourth BOOT limited not significant because we would have achieved financial closure only by October to December. JMC we are not expecting any cash infusion in the next year. Shubham there could be minimal but not significant and capex, I think, if you look at the current year capex numbers also for nine months, we have done less than 50 Crores and I do not think we have plans for a very huge capex plan, but it could be in the range of same 75 Crores to 100 Crores getting into the next year.

Pawan Parakh: Sir so far in this year how much have we infused in JMC and Shubham?

Manish Mohnot: JMC in this year is 0 and Shubham was 75 Crores at the beginning of the year and the transmission BOT in the third one is 100 Crores. Subsidiaries it is 100 plus 75, 175 Crores plus there might be another 15 to 20 Crores in some of the small subsidiaries but it is closer to 180 to 190 Crores.

Pawan Parakh: Just one other thing, Sir what is the update on the two real estate projects?

Manish Mohnot: Thane is completely in the sense has been leased out or sold, 60% is leased out and 40% is sold. There is nothing which is vacant there and we expect to get a lease revenue of anywhere between 12 Crores and 14 Crores getting into next year. In Indore project, the development has started. We had sold some flats when we had launched it and now we expect that once the project is completed which would be getting into 2017-18, last quarter of 2017-18 and 2018-19 we should see some sales coming up.

Pawan Parakh: We do not have any further real estate land parcel to be monetized in Kalpataru Power transmission?

Manish Mohnot: Yes.

Pawan Parakh: Great. All the best. That is all from my side.

Moderator: Thank you Sir. We have the next question from Darshika Khemkar from Edelweiss. Please go ahead.

Darshika Khemkar: Good evening. Congratulations for good set of numbers. Sir, my first question pertains to the road BOOT projects. Sir what has been the collections in Q3?

Manoj Tulsian: Good evening. Q3 our average per day collection is around 45 lakhs.

Darshika Khemkar: Sir this is almost like flattish for the last I guess two quarters or so and I guess you mentioned some time back that the breakeven level is somewhere around 55 to 60 lakhs?

Manoj Tulsian: Yes, 59 to 60 lakhs correct.

Darshika Khemkar: So, you hope to achieve that in FY2018?

Manoj Tulsian: No. This year we were projecting a growth of around 7% to 8% so we are expecting this revenue to grow to around 53 to 54 lakhs, which has not happened this year as you rightly said it is almost flattish, so I think it will take a couple of years from here or so.

Darshika Khemkar: Sir, my question pertains to Shubham Logistics, Sir you mentioned that you have till now invested around 75-odd Crores and I just wanted to understand the interest cost over there is like there is quite a sharp jump over there, so what exactly is this. This is like short-term borrowing cost over there?

Manish Mohnot: No I think 75 Crores is additional equity which we infused in the current year. The interest cost is because given that their performance is not to the mark the rating is not so good, so from that perspective the interest cost levels are higher than KPTL and JMC, so it is not that it is abnormally high, but it continues to be in the range of 10% to 11%, so this interest cost is whatever debt they have including the debt for their capex as well as working capital, because it was 400 Crores and that is why the interest cost has gone up.

Darshika Khemkar: Thank you so much.

Moderator: Thank you Sir. We have our next question from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: Sir, first of all on JMC what is our exposure in private real estate as of now?

Manoj Tulsian: The exposure in private real estate is close to around 2500-odd Crores.

Abhineet Anand: Any delays etc., that we are seeing in that sector because we have a high exposure there?

Manoj Tulsian: Some amount of slowdown we have seen in the last three to four months.

Abhineet Anand: Any change in guidance for JMC what is our view of FY2019 revenues and margins?

Manoj Tulsian: FY2018?

Abhineet Anand: FY2018 and FY2019 both?

Manoj Tulsian: Right now with the type of order book, which we have in the mix, we are yet to freeze our annual budget for FY 2019,but I think for sure with the type of order book we have we should be growing at 15% plus next year. It can be anything between 15% and 20%.

Abhineet Anand: For FY2018 you are saying?

Manoj Tulsian: Yes.

Abhineet Anand: And margins are likely to be maintained or do you see some worsening in the working capital?

Manoj Tulsian: Margin should be in the range of 8.5% to 9% which we have said earlier also.

Abhineet Anand: On Shubham what is the expected loss for the current year?

Manish Mohnot: For the current year we expect losses to be in the range of 60 to 65 Crores more towards 65 Crores. We have already had 50 plus Crores in nine months and we expect the last quarter to be another 12 to 15 Crores definitely.

Abhineet Anand: Will it be back next year or still we will be some 30 to 40 Crores loss in FY2018?

Manish Mohnot: It completely depends on what we see as far as warehouse rentals getting included through the year. If our occupancy level continues to be at 50% to 60%, I do not think we will be positive next year also, but if it goes to 65% to 70% which we have achieved continuously for three to four years except the last two years then we should be coming back to profitable or breakeven.

Abhineet Anand: In JMC the roads BOT we were trying to exit some of those, so any movement there?

Manoj Tulsian: If there is any development, we will definitely let you all know.

Abhineet Anand: What would be our hurdle rate you guys are looking at because the toll collection obviously has not improved for the last I think some time, so any hurdle in terms of x times, or y times, the book or etc., something of that sort that you have or any interest that we have seen is in short-term range?

Manoj Tulsian: No it will depend. Right now if you really see more of a buyer's market, so most of the assets are in the market and the buyers are quoting some crazy prices. They are only trying to see the desperation in the sellers and so we are not in any desperation stage and we know the worth of our assets, so at this point of time we are only looking at some serious buyer to come and discuss with us.

Abhineet Anand: Thanks a lot.

Moderator: Thank you, Mr. Anand. We have a next question from the line of Prabhat Anant Raman from B&K Securities. Please go ahead.

Prabhat Anant Raman: Thanks for the opportunity. Sir, I just wanted to know what the order inflows are in this quarter.

Manish Mohnot: For KPTL?

Prabhat Anant Raman: Sir, my question is pertaining to JMC? I am so sorry.

Manoj Tulsian: For this quarter we declared an order book of 2050 Crores if I recall correctly.

Prabhat Anant Raman: You mean to say order inflow?

Manoj Tulsian: Yes.

Prabhat Anant Raman: Sir, we have 8 Crores kind of other income this quarter. Is this one-off in it and if you could just give us a breakup of the other income?

Manoj Tulsian: There is some one-off interest, which we have realized on certain refunds, which we have received from the government departments both on income tax and sales tax.

Prabhat Anant Raman: That is amounting to?

Manoj Tulsian: That is around 6.2 Crores.

Prabhat Anant Raman: That is the one-off. Sir, if I just go back to the last quarter, you were mentioning that you could look for a revenue run rate of about 1300 to 1400 Crores in the second half and that would kind of place you on the flattish level. So even if I see compare yourself to FY2016 revenue of 2500 Crores the asking rate is around 850 Crores for 4Q would you be comfortable in giving us a guidance for 4Q in terms of how likelihood this number be achieved or can we look for something higher may be kind of a very flattish growth?

Manoj Tulsian: See actually Q3 was a set back for us especially for a few reasons like one the demonetisation which happened to some extent in our case. It is a labour based business, we all know, so because of nonexistence of cash for sometime the labour also went back and to get them back on time it almost took around 35 to 40 days plus there was some problem which was created in the NCR region because of some NGT orders, you remember there was a huge amount of pollution immediately after Diwali so all the batching plant and everything was being de-installed. There was no permission to operate any batching plant, so almost for a month there also we could not do any work, so these were the reasons plus some execution challenges internally, so we could not really perform the way we felt we will be doing in Q3 because Q3 is normally the best season to work. So having said that I think in

Q4 of course now we would not be able to do a number of around 850 or plus 850 Crores. It should be somewhere below that only. So which means there would be a slight negative growth compared to the previous year.

Prabhat Anant Raman: Sir, if you could just throw some number on the kind of order guidance for FY2018-2019?

Manoj Tulsian: Order guidance, new orders?

Prabhat Anant Raman: What kind of order accretion that you are looking at to maintain that 15% to 20% growth that you have mentioned for FY2018?

Manoj Tulsian: We have L1 position right now also of around 1400-odd Crores and for next year surely we would be looking at building up new order book of around 3500 and 4000 Crores.

Prabhat Anant Raman: Sir, last quarter in the first half you made about 35 Crores investment in BOT, if I am not mistaken, and again you just mentioned that your BOT is still not going to be able to achieve a breakeven level. So what kind of incremental equities are we looking at that we will have to invest in the BOTs not only for this year, the residual portion but even for in FY2018-2019?

Manoj Tulsian: FY2018-2019 rough estimate right now is showing a figure of around 55-odd Crores, 55 to 60 Crores.

Prabhat Anant Raman: Per year? For the entire division?

Manoj Tulsian: Yes.

Prabhat Anant Raman: Thank you. If I have any other questions, I will get back in the queue. Thank you.

Moderator: Thank you Sir. We have the next question from the line of Fatema Pacha from ICICI Prudential Life Insurance. Please go ahead.

Fatema Pacha: Good evening Sir. Congratulations for good numbers. Sir, I do not know but for some reason, I think, you have discontinued the segmental. Can you just give us an idea of how transmission versus railway or the infrastructure segment is doing just to get a sense?

Manish Mohnot: Transmission would be around 88% and infrastructure would be around 12% and transmission international and domestic is nearly equally divided.

Fatema Pacha: Transmission versus infra?

Manish Mohnot: Transmission would be around 88% of revenue for Q3 and even nine months it is same.

Fatema Pacha: Okay and backlog also would be similar split or not much change versus history?

Manish Mohnot: Backlog in terms of order book is similar but in terms of L1 I think we have a few large infrastructure projects, which we are L1. The backlog might be different at year-end. At the year-end we might have a higher backlog as far as the infrastructure segment is concerned.

Fatema Pacha: Sir, are we seeing a significant boost to the infrastructure segment versus what we have started off the year with or something like that or not really?

Manish Mohnot: On the Railway side we are seeing a lot of traction. We are seeing a lot of tenders coming in. We are already L1 in tender worth 500 Crores. So in railway side we are seeing a lot of tenders coming in and at least our personal view is that that order book should grow much faster than the order books get at least in the next three months.

Fatema Pacha: How is the international, the African geographies is doing post this entire commodity, like the crude meltdown, are you seeing things normal or are you seeing any places of stress either in execution or funding or anything that could be looking at international exposures?

Manish Mohnot: We are seeing some delays happening in the Middle East market, but if you look at our international order book today, I think out of my total order book 55% is overseas out of which 36% is Africa, 7% is Southeast Asia, CIS and Europe is 5% and Middle East is only 3%.

Fatema Pacha: I am not worried about Middle East; I am worried about Africa only.

Manish Mohnot: Africa we are not seeing much delay. It is all funded projects. So I do not think oil and gas has any impact anywhere in Africa because Africa entire projects of mine are funded either by World Bank or AFDB or ADB or any of those.

Fatema Pacha: Are you seeing a slowdown in funding momentum?

Manish Mohnot: Not so much. I think as far as African market is concerned, we are seeing a lot of tenders coming out at least in the next three to six months we have tenders to book.

Fatema Pacha: So are you seeing the pipeline of orders that you bid for this year increase versus last year? How is it like? Could you give a sense?

Manish Mohnot: As far as African market is concerned it has been very similar. We saw traction in the past and we are seeing the traction continuing. As far as Middle East market is concerned, we definitely see some slow down. There is deferment of orders and you know tenders are getting postponed on a continuous basis.

Fatema Pacha: How is the competition landscape like? Is the Chinese more present? Are they more versus last year?

Manish Mohnot: The competition landscape is exactly the same. That never changes. You still have to be competitive in this business. So some tenders you see some Chinese coming in and some tenders only India and some tenders is Indian Spanish, Middle East operators, so it is very different on each of the take.

Fatema Pacha: The margin mix of international versus domestic remain the way you have always said?

Manish Mohnot: Yes.

Fatema Pacha: The domestic pressure continues in PowerGrid, State SEB orders and international continues to help?

Manish Mohnot: So in terms of order book yes, domestic this year we have seen less traction but in terms of margins I think domestic and international today are very similar margins, so the difference is not as it was in the past. They are both at closer to anywhere between 10% and 11%.

Fatema Pacha: Domestic has improved, is it?

Manish Mohnot: Yes.

Fatema Pacha: Thanks a lot Sir. Best of luck.

Moderator: Thank you, Madam. We have our next question from Mr. Varun Agarwal from BOI AXA Mutual Fund. Please go ahead.

Varun Agarwal: Sir, my question is regarding JMC. So you said there is around 2500 Crores of private real estate order book currently in the order book, JMC, so do you think the execution is slowing down or in terms of receivables do you see any risk there?

Manoj Tulsian: Most of these are from the most reputed builders of Bengaluru. Yes, there is some slowdown, which we have seen. We not really at this point of time perceive any risks. We are also cautious to some extent if you see the execution has got affected because we are also cautious on the same.

Varun Agarwal: But no major risks in terms of delay in execution or working capital cycle expanding?

Manoj Tulsian: Working capital cycle to some extent it has got affected especially in the Bengaluru region, but I think that is now being maintained for the last three to four months. So we do not think that it will go further bad from here and we are in continuous dialogue with the developers also to make sure that it remains within this range.

Varun Agarwal: In terms of Kalpataru, I have a couple of questions there. So you mentioned that basically related to previous question from the previous participant that the margins have improved in domestic level, so my question is relating to that because a lot of projects now all are like TBCB projects, so instead of my belief was that the margins should have actually been a little contained but actually you said the margin has improved, so can you throw some light on that? How has it helped apart from any commodity gains or anything, which is involved here?

Manish Mohnot: So on a totality basis, the margins of domestic which used to be at levels of 8% to 9% if we go back a few years ago, and including the last few years given that a mix of we have got some SEB projects as well as we had from PowerGrid and some BOT projects. Also on some of the large BOT projects the private sector the competition is much lesser than the normal SEB project. A lot of it has also happened because of productivity and cost improvement focus. For the last two years we have been continuously focused on productivity improvement and cost reduction and that has also helped us. So with all this mix our current order book clearly gives us a visibility of 10% to 11% margin on the TL side.

Varun Agarwal: Just to understand in terms of your commodity prices have gone up quite sharply in the last few months, so just wanted to understand does it or will it have any impact on the margins going forward like six months to one year over our execution cycle or do you think most of it is hedged, so we will be able to maintain our margins?

Manish Mohnot: Significant portion of our exposure in aluminium is hedged, but on steel obviously we are not hedged, so to that extent steel further there would be some impact, but it is not going to be significant because a lot of our projects also has variable price. So on a totality basis would it have a big impact on margins may be very minimal not significant.

Varun Agarwal: Just one question more on JMC. In JMC we have this Nagpur Wainganga project, . So what is your take on that? Where the traffic projects have not picked up to what our expectation is so what do you think your take on that project?

Manoj Tulsian: I do not know why specific the question is on Nagpur project. Most of the projects is similar so whatever growth we have been seeing is almost in fact Nagpur has shown us better growth.

Varun Agarwal: Ideally because it is I think that region should have shown better growth.

Manoj Tulsian: It has shown better growth compared to other projects in the last nine months.

Varun Agarwal: So nothing as such, no concern as such in that project?

Manoj Tulsian: No.

Varun Agarwal: Just normal.

Manoj Tulsian: Yes.

Varun Agarwal: Thanks a lot.

Moderator: Thank you very much Sir. We have our question from the line of Amber Singhania from AMSEC. Please go ahead.

Amber Singhania: Thank you for taking my question. Just a couple of questions; first on JMC side; as you rightly mentioned that you are slightly cautious seeing the current scenario and exposure towards the real estate despite that we are guiding around 15% to 20% of revenue growth next year so what exactly is giving that confidence? Which area you are seeing that the growth will be much higher than the normal growth even if the real estate slows down a bit which can help us to achieve this kind of guidance?

Manoj Tulsian: Two areas, one is the infrastructure where we have built up good order book and most of the cases we have already have the work front and possibly starting March or April we would be able to work full-fledged on the sites and even on the other projects which are government projects where also the visibility is very good for the next 12 months on many of the projects which are started during the year or which got delayed during the year in terms of getting the LOIs and other approvals, the visibility is very good for the next 12 months and that is why I am saying that even though we are still yet to freeze our budgets but looking at the visibility a 15% growth seems to be very eminent.

Amber Singhania: How much loss has already incurred in the four BOT project in nine months?

Manoj Tulsian: Losses in the four BOT projects in nine months it is close to around I think 80 Crores, 75 Crores to 80 Crores.

Amber Singhania: Sir, where do we see JMC debt going forward because we need to fund these losses also in the next two year also we need to infuse money in that? So where do we see our debt going forward in FY2019 and FY2019 and the current year because we are already at 706 Crores?

Manoj Tulsian: If you see this year our debt level have not gone up compared to the open debt level, it has slightly come down only despite our investments in BOT during this year also and I think internally how we are looking at it is possibly in the next two years also we will be able to absorb the investment which we have to make in the BOT, which would be roughly around Rs.55 Crores to Rs.60 odd Crores further. So my internal cash accruals less capex we would be able to meet this challenge. So debt level in the next two to three years also, our working shows it should be in the range of Rs.720 odd Crores to around Rs.800 Crores not beyond that.

Amber Singhania: Because to achieve 15%, 20% growth you will be requiring some working capital limits and debts on that part?

Manoj Tulsian: We agree on that and that is where a lot of hard work has been done on the working capital side also, because of which this year also people had apprehensions that whether we would be able to contain within the same debt level given the opportunity and of investing on the BOT, but so far we have been able to do that and with our projects in hand on further improving our working capital I am sure that we would be able to be in that range.

Amber Singhania: Similarly on the Kalpataru front also as we are targeting high growth going forward and at the same time we have losses in logistics business and investment on the BOOT project, so where do we see our debt level, this year I find that you will be able to maintain it around the current level as such, but how do we see it to going forward in FY2018 and FY2019 on that part?

Manish Mohnot: Our plans would be to keep debts at minimal levels while we have targeted Rs.700 Crores for this year end, we have still not finalized our target for next year end, but if you were to go at similar levels of 15%, 20% growth and similar levels of margins I think our cash flows would be enough to take care of all our investments into BOOT as well as capex, so I do not see debt levels going up significantly or it might even be at similar levels, but we have still not targeted the debt numbers for next year, the detail business plan is happening, but with the 15%, 20% growth I do not see debt levels going up getting over the next year.

Amber Singhania: There would not be any further inflow from non-business areas because we have already sold that Thane property and Indore is already at the construction phase, it will be difficult to monetize in the immediate future?

Manish Mohnot: We are not expecting anything in the next year, it is only through our internal accruals, because if you do rough calculation of what we have been doing, you would see that our cash flow would be enough to take care of both the working capital increase as well as the investments which you plan in BOOT as well as capex next year.

Amber Singhania: Secondly on the manufacturing side, we would be running at what capacity utilization level as of now on tower side?

Manish Mohnot: Right now we were running at 95% to 100%.

Amber Singhania: Do we source from outside also, the finished products?

Manish Mohnot: We have done some outsourcing in the current year but not significant.

Amber Singhania: Why I am asking this because the fourth BOT which you have won in northeast, would it be fair to assume that it will be economical to source from the locally rather than supplying from our units of Raipur and all in terms of logistics?

Manish Mohnot: We will explore those options, right because still far away I think the tower would be required only getting into Q4 of next year if not later than that. It is too early for us to look at those kinds of options; we will explore this option if it is cheaper outside we will take it from there. At the end of the year if freight is costlier and some one else is cheaper in northeast we can look at those options.

Amber Singhania: Fine, also if you can just throw some light on the pipeline of bidding going forward. You rightly mentioned about the opportunities, which are very positive on international as well as domestic side, but if you can throw some light on how is the railway near term pipeline if you can quantify some large projects, which you are bidding for railway pipelines or infra?

Manish Mohnot: Railway between now and March, we will be bidding for projects in the range of Rs.6000 to Rs.7000 Crores between now and March. As far as pipeline is concerned it might be anywhere between Rs.750 Crores to Rs.1000 Crores. Transmission international we see a large bids coming up in Africa as well as a few in Middle East which might be anywhere between $400 million to $500 million. Transmission domestic not much coming in the next few months except some PowerGrid tenders which some have been bid and some are being bid right now.

Amber Singhania: Just one last thing Sir. PowerGrid like earlier also we have seen many times tend to give orders in April, May instead of giving us in March for whatever reason, so do we see the similar situation panning out at this time also or we see a good amount of tender opening in March itself. What is your sense we are getting from?

Manish Mohnot: We have bid for a lot of tenders in the last two, three weeks and we are bidding for a lot of tenders or at least five, six more tender in the next few weeks, now whether it happens in March or April or May would be beyond me I think something which PowerGrid would decide.

Amber Singhania: Thanks a lot.

Moderator: Thank you Sir. We have the next question from Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Thanks for taking my question. Sir are we seeing the impact of reverse bidding in PowerGrid. I do not know it has been quite a while since they have introduced into their bidding scenario. Are people acting rational including their pricing or are there some pricing pressures, which are being seen?

Manish Mohnot: So we see some tenders where we see some irrational bids, but in totality yes there is competition, but there is healthy competition, but yes few bids we have seen some, but again it is a call of every organization, rational would seem rational for me, could be irrational for someone else, but at least from our perspective we are not getting into irrational bids at least in the domestic market.

Ravi Swaminathan: Do you think that market opportunity is big, because of which prices are by and large being irrational? Is that conclusion that one can make?

Manish Mohnot: I do not think you can take that conclusion. There is a market opportunity, but there has been deferment lot of opportunity that PGCIL and SEBs. I do not think you can say that pricing are good because the market is still healthy competition, I think converting those revenue to margins where you need last year size, productivity, cost improvement, interest cost reduction all of that, still competitive market sometimes you bid at different levels, margins are very different that comes out of shear focus and productivity.

Ravi Swaminathan: We have been seen good inflows from Africa, how big is the market opportunity which is over there and what is happening currently is that lot of tenders are being awarded even players like Tata Projects etc., have won a couple of awards, the market seeing phenomenal growth there?

Manish Mohnot: The traction is similar to what it has been in the last few years. Africa has always been a good market, so we have seen traction being similar what it was always and there are five, six, seven competitors only, so typically there is traction in the next three, four months also, we have bid of more than $400, $500 million which we are bidding over the next three to four months in Africa. So funded projects continue to drive African market.

Ravi Swaminathan: Thanks.

Moderator: Thank you Sir. We have the next question from Ritika Garg from Aequitas Investments. Please go ahead.

Ritika Garg: My question is relating to JMC projects, I want to know what is the order book as on 31st December and how much of it is constituted by infrastructure and government projects?

Manoj Tulsian: The total order book December end is around Rs.6800 Crores and out of which the government order book is around 45%.

Ritika Garg: What was the order inflow in this quarter?

Manoj Tulsian: Rs.2000 Crores.

Ritika Garg: What is the loss for the nine months for the JV?

Manoj Tulsian: For the subsidiaries?

Ritika Garg: No for the JV, the subsidiaries I know are Rs.80 Crores?

Manoj Tulsian: Yes. There is no other JV.

Ritika Garg: 49.57% associate that we have Kurukshetra Expressway?

Manoj Tulsian: No that is included in the Rs.80 Crores.

Ritika Garg: Okay fine, thank you Sir.

Moderator: Thank you Ms. Garg. We have next question from Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: My question is on Kalpataru, the debt has gone up sequentially, how does the working capital situation stand in December vis-à-vis September?

Manish Mohnot: Sequentially compared to September, the debt has gone up by Rs.200 Crores driven by the significant growth, which has happened in the current quarter also the investments in the BOOT, which we have done in the current quarter. It is a combination of both we have put in closer to Rs.100 Crores in Q3 and the new BOT project as well as the growth, but still below our targeted numbers, we have targeted that we would be below Rs.700 Crores on annualized basis and I am sure we will achieve those targets.

Devang Patel: My question on JMC on the L1 position, which is large can you talk of some big orders, is going to this?

Manoj Tulsian: We have L1 position of around Rs.1400 odd Crores, which are around three orders.

Devang Patel: Could you talk about significant orders and anything, which you would expect to get converted by March?

Manoj Tulsian: We would be expecting one or two to get converted before March for sure.

Devang Patel: Okay, thank you Sir.

Moderator: Thank you. We have the next question from the line of Sandeep Baid from Quest Investment. Please go ahead.

Sandeep Baid: Good evening and congratulations on a good set of numbers. Manish, recently we won one order for substation, just wanted to know the company strategy with respect to substation going forward both for domestic and international markets?

Manish Mohnot: Recently substation business, Kalpataru was a late entrant in that business; we started that business only around three years ago and we spend the last couple of years getting a lot of pre-qualifications, because we were not completely qualified on all substation projects. Today we are qualified actually on majority of the projects of PowerGrid and SEB, everything up to 400 and even 765 some projects we are qualified and now we build a big team also, our substation team domestic and international put together would be more than 70 odd people and order book of domestic and international substation put together out of our order book would be closer to Rs.1000 Crores. So with that yes we will continue to focus on substation projects and also lot of projects are coming which is substation plus lines together and which we typically used to outsource and work with partners in the past, so we would now continue to make sure that our team works on those projects and we will be bidding for projects will be qualified. So it is going to be a big growth area for us getting into the future. As late entrance, we had some negative, but we are catching up now.

Sandeep Baid: Right and you mentioned that Rs.1000 Crores across both domestic and international market?

Manish Mohnot: Closer to that number.

Sandeep Baid: Thank you.

Moderator: Thank you Mr. Baid. We have next question from Bharat Sheth from Quest Investments. Pleas go ahead.

Bharat Sheth: Good evening and congratulation on good set of number Mr. Mohnot. Sir I had just one or two questions on this JMC, other expenses almost double, YOY despite degrowth, so is there any one off?

Manoj Tulsian: No, there is no one-off in the other expenses, sometimes it happens, it depends on the subcontracting also, the type of order, which were executing and the type of subcontracting which is there, it is part of that.

Bharat Sheth: You have said that we expect to get an order book of around Rs.3500 Crores next year, so what is the – can you just give some sense on the bid pipeline and what kind of order book that you are looking?

Manoj Tulsian: We are definitely looking at infra for building up the order book because there are a lot of opportunities right now on the infra sector and all on highways, flyover, water projects and even selectively on metro rail and international of course, so we are expecting to build up a good order book in the infra sector in the next couple of years and most of it would be coming from infra side only.

Bharat Sheth: On international how much geography currently we are present?

Manoj Tulsian: We have two countries already, we are present in Sri Lanka and Ethiopia and we have L1 position in another country.

Bharat Sheth: And are we looking for expanding geography further?

Manoj Tulsian: Yes, so during the current year we are looking at one more geography on the expansion path.

Bharat Sheth: This year how much we expect to invest in this BOOT project?

Manoj Tulsian: We have invested close to around Rs.55 Crores; I think the first nine months and would be investing another Rs.10 or Rs.12 Crores in the balance Q4.

Bharat Sheth: Capex guideline for this year as well as next year?

Manoj Tulsian: This year should be close to around 70 odd Crores, next year also now that we are looking at some of this infrastructure projects should be in the range of Rs.75 to Rs.80 Crores.

Bharat Sheth: Thank you very much. That is all from me.

Moderator: Thank you Mr. Sheth. We have a follow on question from the line of Ritika Garg from Aequitas Investments. Please go ahead.

Ritika Garg: Hi Sir, I wanted to know for JMC projects order inflow Rs.2000 Crores for Q3, how much of it is from infra?

Manoj Tulsian: Infra is Rs.500 Crores out of the same.

Ritika Garg: And then private sector would be the remaining?

Manoj Tulsian: Yes private plus government sector also.

Ritika Garg: And government would be how much?

Manoj Tulsian: Government is another 600.

Ritika Garg: Rs.600 Crores and Sir this L1 of Rs.1400 Crores how much would be for private sector?

Manoj Tulsian: Private would be close to around Rs.800 to Rs.850 Crores.

Ritika Garg: Okay Sir. Thank you so much.

Moderator: Thank you Ms. Garg. We have a next question from Ankit Babel, a follow on question from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir my question is on other non-operating income, which is mainly our interest income now, on a quarterly basis our runrate is around Rs.12 to Rs.15 Crores, so on annualized basis around Rs.50 Crores, so just wanted to understand will this runrate continue next year also?

Manish Mohnot: I think it will come down in the next year one because interest rates have reduced for all those other income also where the interest cost has come down, also some repayments have happened from some of the subsidiaries, and so getting into next year we will definitely see this amount coming down.

Ankit Babel: How much Sir?

Manish Mohnot: From levels of 50 we might be anywhere between Rs.35 to Rs.40 Crores.

Ankit Babel: Okay. It is helpful Sir. Thank you so much.

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

Bhoomika Nair: I would like to thank everybody for being on the call particularly the management for answering all our queries and taking time out for the call. Thank you very much Sir.

Manish Mohnot: Thank you Bhoomika. Thank you everyone.

Moderator: Thank you Sir. Ladies and gentlemen on behalf of IDFC Securities that concludes this conference. Thanks for joining us. You may now disconnect your lines.