KALPA-TARU POWER TRANSMISSION LIMITED

JMC PROJECTS (INDIA) LTD.
A Kalpataru Group Enterprise

"Kalpataru Power Transmission Ltd. and JMC Projects (India) Ltd. Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the KPTL & JMCs Q1 FY2020 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. Thank you and over to you!

Bhoomika Nair: Good morning everyone. I would like to welcome you to the Q1 FY2020 earnings call of Kalpataru Power Transmission Ltd. and JMC Projects India Ltd. From the management, we have Mr. Manish Mohnot, Managing Director and CEO, Mr. Ram Patodia – President, Finance & CFO, Mr. Kamal Jain and Mr. Manoj Tulsian – Whole-Time Director and CFO from 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: Good morning everyone. I am thankful to you for your continued interest and attending this earnings call of KPTL and JMC. I am happy to inform you that we have delivered a strong quarter with good growth and profitability numbers for both standalone as well as consolidated KPTL.

Over the last quarter there were three significant initiatives I wanted to highlight that we recently undertook.

First as informed to everyone we have entered into binding agreement with CLP India to sell our three assets, Kalpataru Satpura Transco, Alipurduar and Kohima Mariani for an estimated enterprise value of Rs.3,275 Crores.

Second we have completed the acquisition of Linjemontage, which gives us entry into European and Nordic market with local presence. Third, we have signed definitive agreement with Tano India to acquire 19.94% stake in Shubham in a share swap transaction amounting to approximately Rs.65 Crores. This will make Shubham a wholly owned subsidiary of KPTL. Yesterday in the AGM this was also approved by majority of the shareholders, so the transaction will go through soon.

These initiatives along with our focus on cost efficiency, early completion of projects, and digitalization will help us improve competitiveness in our EPC business. KPTL & JMC are moving in right strategic direction with focus on strengthening EPC business and improving return ratios.

In the past few months we have seen good traction in our T&D business with L1 of around Rs.1,800 Crores of the total L1 position of Rs.2,550 Crores in KPTL. Our order book position and new order visibility gives us confidence to achieve revenue and profitability guidance for KPTL & JMC in

FY2020.

Getting in to more details, first at consolidated level given that results now get declared both consolidated and standalone. On the back of a strong performance across various businesses, KPTL consolidated revenue for Q1 FY2020 was Rs.2771 Crores, a growth of 33% over the same quarter of previous year.

Consolidated EBITDA is at Rs.358 Crores with margin of 12.9%. PAT was at Rs.107 Crores a growth of 20% as compared to same quarter of last year. Our consolidated order book is at Rs.24,918 Crores, which is well diversified across T&D, railways, oil & gas, B&F and other infra businesses. Our order visibility across all our business remains good, giving us reasonable confidence to deliver on our growth target.

Coming to standalone results, at KPTL revenue for Q1 was Rs.1,655 Crores, a growth of 25% on Y-o-Y basis. For Q1 FY2020, our oil & gas business grew by 40%, our railway business has achieved a strong revenue growth of more than 300% and T&D business declined by 5%. Our execution in T&D business expect to improve from second half of this year and as guided earlier we expect T&D business to grow by 10% to 12% and railways and oil & gas business by about 35% to 40% for the full year FY2020. Our core EBITDA has reached Rs 192 Crores in Q1 FY2020 with 11.6% EBITDA margin. We continue to be confident of delivering EBITDA in the range of 10.5% to 11% as projected earlier for KPTL as well as for JMC.

Our net borrowing at the end of June 2019 increased to Rs.1,013 Crores due to increase in working capital requirement driven by revenue growth, payment for acquisition of Linjemontage, preferential capital infusion in Shubham Logistics and investment in our T&D BOOT projects. However, as guided at the start of the year our debt levels will be maintained between Rs.800 to Rs.1,000 Crores for FY2020. Similarly our finance cost has also increased in Q1 FY 2020 on account of rise in debt. However we are confident to maintain our interest cost as a percentage of sales at similar levels of FY2019 of approximately 1.7%.

Our PBT for Q1 FY2020 is Rs.142 Crores a growth of 14% on Y-o-Y basis and PAT of 92 Crores a growth of 14% on Y-o-Y basis.

Our order book as on June 30, 2019 is at Rs.14,745 Crores this is excluding the new orders of Rs. 445 Crores received in July 2019 and declared yesterday. Our order inflow in FY2020 till date is Rs.2,268 Crores. Incrementally we have L1 position of approximately Rs. 2,550 Crores as on date.

At JMC revenue for Q1 FY2020 is Rs.904 Crores a Y-o-Y growth of 31% mainly supported by strong execution in our infrastructure business.

Our core EBITDA of FY2020 is Rs.100 Crores and our EBITDA margin has improved by 80 basis points to reach 11.1% for JMC. The PBT for Q1 FY2020 is Rs. 48 Crores a growth of 39% Y-o-Y basis and PAT of Rs. 36 Crores a growth of 34% on Y-o-Y basis. Our standalone debt at JMC has increased to Rs.768 Crores at the end of June 2019 on account of increase in working capital aligned to revenue increase. Similarly finance cost increase commensurate with debt levels. As per our previous guidance we will maintain debt at around Rs.800 Crores for FY2020 for JMC.

At JMC, our order book is Rs.10,173 Crores at the end of June 2019. Our order inflow till date is over Rs.1,130 Crores largely driven by B&F projects. Additionally we have L1 positioned orders of over Rs.600 Crores. Our road BOT assets continue to witness good growth, toll collection for the entire 4 road BOOT assets excluding overloading grew by 5.2% in Q1 FY2020 compared to Q1 of previous year. Our average daily revenue was Rs. 58.5 lakhs per day in Q1 FY2020 as compared to Rs.55.2 lakhs in Q1 FY2019.

At SSL revenue in Q1 FY2020 was Rs. 33 Crores a growth of 12% on Y-o-Y basis. EBITDA for the quarter was Rs.11 Crores and loss is Rs.2 Crores. We have invested Rs.100 Crores through preference capital for debt repayment and operational support to Shubham. We expect profitability will improve going forward.

Thank you once again, I am happy to take your questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Few questions on KPTL. Now Sir in this environment a 25% topline growth is really commendable; however, my concern is in spite of such high topline growth there is no improvement in margins at operating level, in fact they have declined on a Y-o-Y basis, so just wanted to know is it a quarterly phenomena or there are any one offs in this quarter?

Manish Mohnot: Couple of aspects Ankit, first to be very clear on annualized basis we are still targeting 15% to 20% growth we are not targeting 25% plus growth what we have seen in Q1. Second on margins we have projected margins in the range of 11% on annualized basis. What happens is on a quarterly basis there are different size of projects, which get delivered and so margins typically change. So we had budgeted similar numbers only and we have achieved what we had budgeted. Also we have some one-off expenses in Q1, which we do not expect to come up in the balance part of the year by which at least PBT and PAT should improve going forward, but on an overall basis we are still confident of 10.75% to 11% EBITDA, PBT in the range of 8.5% plus and topline growth of 15% to 20%.

Ankit Babel: Sir could you quantify the amount of one offs and the nature of those expenditure?

Manish Mohnot: There are two aspects, in previous year Q1 we had an approximately forex gain of Rs.10 Crores compared to that we have a forex loss of approximately Rs.6 Crores in the current quarter. So that is not one off, but that is something which has a small impact on margin. Besides that we had taken some RBI electoral bonds for donations to political parties of approximately Rs. 15 Crores in KPTL and approximately Rs. 5 Crores in JMC, which both of them are one off and both were done in Q1.

Ankit Babel: Sir my second question on KPTL is you have an L1 position of around Rs. 2,500 Crores, do you expect the orders to receive in Q2 itself or they can slip to even H2?

Manish Mohnot: I think our own assessment is all of this orders should come between August and September. Most of these, because there is couple of even railways should come in the next week, oil & gas should come in the next 15 days, yes, majority of this if not all should come in August and latest by 15th September.

Ankit Babel: So you say that your guidance of around Rs. 10,000 to 10,500 Crores of inflows you maintained that guidelines for KPTL?

Manish Mohnot: Yes, I thought, I gave guidance of Rs. 9,000 to 10,000, but yes we will stick to the guidance of Rs. 10,000 Crores.

Ankit Babel: Few questions on JMC. How was the execution of the MP order in this quarter and is everything going on as per schedule or in this order or is there any delay?

Manoj Tulsian: This quarter we have executed close to around Rs. 70 odd Crores on the MP project and right now everything is looking fine, I think some delays in getting payment during one particular month, but then we have received the same during this month.

Ankit Babel: Second was Sir considering the first quarter performance and the order book level is it safe to assume that this will cross at least Rs. 4,000 Crores revenue this fiscal?

Manoj Tulsian: See we had initially given a guidance of 20% plus and when we had given that, we knew that Q1 growth would be good because we had already reached the run rate of around Rs. 900 Crores in Q3 and Q4. Keeping that in mind the growth look to be very good because of the base of last year. Q2 also will have a similar base, but we still want to stick to our target of 20% plus it all depends on how the H1 number comes and how the environment is because we have to be very, very careful on our working capital management, looking at the way things are going on today in the market and at H1 maybe we can take a call whether we would be able to strike a higher number or not, but the initial guidance now remains very much intact because of good performance in Q1.

Ankit Babel: And Sir my last question is excluding any impact of AS-116, if there is any, what kind of margins at operating level which can witness in FY2020, is it like 11% is doable or last year it was 10.4%?

Manoj Tulsian: Well I think this year we had again guided that there would be around 50 basis points increase in margin, which seems to be happening based on the performance of Q1 and once we reach that threshold I am sure that looking at the quality of order book and everything there would be a possibility of further improvement of margin next year also, but it is too early to make a statement at this point of time.

Ankit Babel: Great Sir. Thank you so much. All the best.

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

Bhalchandra Shinde: Sir first about the guidance would like to know about Kalpataru as you said that you would like to maintain the guidance roughly around 15% to 20%, so that means we are expecting a growth in the range of around 12% kind of levels in next nine months, is it because of the lower T&D execution or what?

Manish Mohnot: No, I think it is a mix of everything, Q2 typically is a low quarter given by monsoon and other reasons. Q3, Q4 you will see growth coming in, but given that what we had order book, which was visible at the beginning of the year we still believe 15% to 20% is easily achievable if at all there is an improvement we will reguide the street only at the end of Q2 or Q3.

Bhalchandra Shinde: And Sir regarding green corridor would like to know what is the status and do we expect kind of an order inflow is happening in Q2, Q3 or it will keep on delaying?

Manish Mohnot: Lot of tenders of green energy corridor has been won by a few private sector and PGCIL in the last few weeks. There are around five or six tenders for which bidding was done and reverse auction was concluded and they have been won by several parties, private as well as Power Grid. So we expect our conversion of this tenders to orders for us should happen in the next two, three months we might get something of that. So from my own assessment is as per we are concerned Q2 we should see some orders coming in from the green energy corridor.

Bhalchandra Shinde: So are we factoring in our order inflow guidance that green corridor order inflows?

Manish Mohnot: As of today in the L1 position we have not considered anything in that, our L1 position is truly L1, which has been opened and declared as a winner, but as of today we are not, annualized basis regarding Rs. 9,000 to 10,000 Cores we expect some projects from the green energy corridor.

Bhalchandra Shinde: And Sir regarding railways also, would like to know means what kind of order inflows we expect over next nine months?

Manish Mohnot: We are targeting orders in excess of Rs. 2,000 Crores for railways, Rs.2,000 to 2,500 Crores for the current year out of which we have already achieved Rs. 1,000 Crores plus visibility including L1 in Q1 itself. So given that achieving to Rs. 2,500 Crores would not be a challenge for railways.

Bhalchandra Shinde: And Sir last question can you share Linjemontage order inflow for this quarter?

Manish Mohnot: Linjemontage order inflow, as of now we had guided the street that we would be doing approximately $80 million of revenue for Linjemontage for the year, their order inflow for Q1 is around Rs. 69 Crores and they are L1 in orders of approximately Rs. 277 Crores as of now.

Bhalchandra Shinde: Thank you Sir. I will come back for other questions.

Moderator: Thank you. The next question is from the line of Bharat Seth from Quest Investment. Please go ahead.

Bharat Seth: Sir just on your debt side, I want to understand you are guiding for Rs. 800-1,000 Crores after factoring how much that we expect from this sale of three assets?

Manish Mohnot: Bharat bhai the guidance at the beginning of the year did not factor in any sale out of the three assets and the guidance today also does not factor in anything out of that. This guidance is based on core EPC business projections for the year. So we expect the sale of the assets cash flows to start coming in from Q3 and whatever comes in from there definitely will further reduce the debt levels.

Bharat Seth: And Sir on second side are we looking for new vertical, which is emerging like EV, charging station or any kind of a new vertical at this moment we are looking in?

Manish Mohnot: So, Bharat bhai strategically our focus is not to look at a lot of diversification at this stage, our core businesses within KPTL and JMC already we have six or seven segments where we have a market leadership and we have the entire world where we have not gone for those businesses whether railways, oil & gas, water, roads, all of that. So our focus going forward at least in the next few years is more to make sure that we capitalize our leadership position in whatever segments we exist today where there is an opportunity there and we understand that business well and do not look at a lot of diversification at least for the next couple of years.

Bharat Seth: And how Sir now with at least two, three months with this Linjemontage in our wallet opportunity in those regions?

Manish Mohnot: So as we declared, we are already L1 in orders of approximately Rs. 270 Crores in Linjemontage and we have already received Rs. 69 Crores in Q1. So it has just been two months we have acquired it, we are happy with the acquisition and we are happy the way the company is doing and the company is growing. We will continue to focus on that and as guided in three to five years we want to make this reasonable revenue within the overall group operations, we are looking at $80 million this year and we expect to grow by at least 15-20% annualized for the next few years at Linjemontage.

Bharat Seth: Sir on JMC we have got infra side whatever order book how much is related to water and can you just in our annual report also we have highlighted several orders, which is up to last mile connectivity so how do we see our opportunity in this water business then competitive landscape and international opportunity for this business?

Manoj Tulsian: See are you asking about how much of order book we already have on water projects?

Bharat Seth: Correct that is one and how do we see from over next two, three year in competitive landscape and taking this business already we have won order in Sri Lanka so other part of the world?

Manoj Tulsian: See first of all our order book today on water is close to around 25% of the total order book, which itself is significant compared to where we were around three years back and this segment we started working almost around 7 to 8 years back and if you remember initially we were taking some very small projects, just to find out that what is our own understanding, learning mistakes and all those things and we grew up on the same, we corrected some of the mistakes, which we made initially our own thought process on the same and today successfully we are doing more than 9 to 10 water projects and all of them have turned out to be good. So this is one platform where we want to built-in for one reason that we have over a period of time made a very strong team. Second the capex side on this business is very, very low. So that helps us in our overall strategy of capital allocation also because real estate business and also roads and flyovers they call for high capex. So it somehow balances our capex program also. Yes there are opportunities in this country and you have seen now even the Prime Minister speaking about it. So I think we have at the right point of time entered into a segment and built up our capabilities and I think this business is here to grow further on exponential scale going forward. On the international side also we are working in few countries in Africa and we are very hopeful because there also we started working for almost last 24 months and we are hoping that we will get some success during this year only. So when last quarter also I spoke about some large international orders we are looking at one large international order on water also.

Bharat Seth: And Sir how is the competitive landscape and since we have entered very early and how do we see our PQ increasing now from this level and over next year?

Manoj Tulsian: See some of these projects will get completed this year, so our PQ will substantially improve by next year and this year also we were still had to go with few of JV partners for PQ qualification, but I think by next year we ourselves will have a PQ of almost around Rs. 800 to 1000 Crores single bidding. So that makes us totally independent and there is you know that there is a cost always involved of having JV partner. So it only helps in our margin improvement. In terms of competition and competitive scenario yes competition is there, but I think it is a decent competition because today the way things are that most of the companies in this sector have gone through very rough patch in terms of their financial management. Because of which there are not too many players but yes there is a reasonable competition at this point of time, which still again the type of opportunity, which will come in this sector in the next five years would be enough for all of us to target our growth and do it. So there is a scope for everyone to participate and move forward.

Bharat Seth: We have got some last mile connectivity so that is government scheme of 'Nal Se Jal' so we will be getting those kind of order also. Correct?

Manoj Tulsian: Yes, why not.

Bharat Seth: Great and wish you all the best Sir.

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

Ranjit Shivaram: Sir if you can I do not know whether you have shared this Q1 the breakup between the domestic T&D, overseas and railways?

Manish Mohnot: We have shared the breakup on a T&D basis that if you look at the T&D revenue it was around Rs 950 odd Crores, which was international and domestic together a degrowth of around 6% to 7%, rail was around Rs 400 Crores and oil & gas was around Rs 270 Crores. So the oil & gas and rail business have grown by 100% put together. Biomass was Rs 20 Crores so that is a major breakup for Q1 so there is a degrowth in T&D 5% to 6% and a significant growth coning in rail and oil & gas for Q1.

Ranjit Shivaram: And in that qualitatively domestic T&D is more degrowth?

Manish Mohnot: No, actually domestic T&D is not a degrowth it is international T&D, which is showing a degrowth for Q1, domestic T&D has grown at 15% plus for Q1, international T&D has shown a degrowth in Q1.

Ranjit Shivaram: And what is our overall 15% to 20% growth so how much of the growth we are getting in for domestic and overseas T&D?

Manish Mohnot: We expect similar growth of approximately 10% to come from both domestic and international so on annualized basis we expect both the businesses to be growing in the range of 10% for FY2020.

Ranjit Shivaram: And the other railways to grow at 40%, which you had mentioned?

Manish Mohnot: Railways, oil & gas together should be growing at minimum 40%, 45% if is not higher than that.

Ranjit Shivaram: And in your order intake guidance of Rs 9,000 Crores you mentioned that railways will be Rs 2000 to 2500 crores, so how much will be domestic and overseas T&D in that and anything in the pipeline?

Manish Mohnot: Our guidance for T&D order book inflow is approximately in the range of Rs 5,000 to 5,500 Crores for the current year out of which we expect domestic T&D to get around Rs 2,500 Crores and international to be in a similar number and out of the order book L1 what we are today of Rs 2,600 Crores, Rs 1850 crores is T&D, of which domestic is nearly around Rs 500 Crores and balance is international.

Ranjit Shivaram: And just on the net working capital is there any increase in the net working capital due to this finance cost has gone up and since it is largely to do with receivables or payables?

Manish Mohnot: There is increase in net working capital compared to Q4 of the previous year if you compare it to Q1 of 2019 it would be similar. The primary reason for increase is what has happened is because of reduction in payables not as much s increase in debtors.

Ranjit Shivaram: And where do you see this going forward?

Manish Mohnot: So we expect as I had guided earlier we expect net debt that was to continue in the range of Rs 800 to 1,000 Crores for the year for KPTL standalone, which means that our working capital level should be similar numbers as far as the balance part of the year is concerned.

Ranjit Shivaram: And lastly on that asset sale how much is the amount, which we are expecting to receive for a standalone KPTL entity from this whole transaction?

Manish Mohnot: I think we expect for this transaction we expect to receive approximately Rs 1,200 odd Crores anywhere in the range of Rs 1,150 to 1,200 Crores.

Ranjit Shivaram: But this will be post tax rate you will have to pay some capital gains there?

Manish Mohnot: Yes, this is the gross amount we expect that also to be in the range of Rs 90 to 100 Crores, so net amount could be anywhere in the range of Rs 1,050 to 1,100 Crores for KPTL.

Ranjit Shivaram: And overall we should have invested close to around Rs 550 to 600 Crores in that range?

Manish Mohnot: Yes, perfect. Our total investment by the end of COD happened should be in the range of Rs 550 to 600 Crores.

Ranjit Shivaram: And any more equity which we are planning to invest anywhere this, for any of the subsidiary for BOT or is it done this year?

Manish Mohnot: I think as of now there is no equity commitment for any further BOT assets in any of the segments which we operate.

Ranjit Shivaram: Even for Shubham there are no more equity investments?

Manish Mohnot: No, even for Shubham the Rs 100 Crores preferential capital which we have increased is enough for as far as we are concerned at least for the next future round of growth.

Ranjit Shivaram: Thanks. I will join for further questions.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Could you walk us through the transmission asset sale especially on the receipt of the cash flows when I read in the presentation Rs 90 Crores is pending, but what would be helpful is the timing of the cash flows received first half, what we expect second half and FY2020 what we expect, second question continuing that is could you help us with the reason of keeping Jhajjar out of the transaction was it difference in the valuation or any other reason that you are posing and what is the next course of action for this asset?

Manish Mohnot: Let me first answer your second question, I do not think Jhajjar was kept out for anything related to valuation, it was just kept out for strategic reasons and for PQ reason. We might exit that asset also quick for all you know you should hear something about this in the next couple of quarters, but as of today we have kept it for strategic and for prequalification reason. It has got nothing to do with valuation. Now coming to your first question out of that number of around Rs 1,200 Crores, which we expect to get for KPTL we expect approximately 40% of it to come in the current year, which is by March 31, 2020 and the balance to come in, in Q2, Q3 of next year. There could be something, which subject to rest of the approvals all of this had some regulatory approvals linked wherein we need the approvals of various LTTCs and regulatory and all of that and the process has already started, we have already applied for approvals in two of our three assets, the process already begin and historically whoever has done this they have got all the approvals so there should not be a challenge. But our own expectation is that approximately 40% of our equity cash flow, which should be in the range of Rs 400 to 500 Crores, should come in, in the current year and the balance should happen in the next year.

Bhavin Vithlani: So Alipurduar is the one that you are expecting it next year because there is an equity commitment, which is pending?

Manish Mohnot: Yes, so, because that COD will happen next year see the MP COD is done so that should come in fast. The West Bengal, Bihar, ATL one of them COD is done second one will happen in the next few months so that should happen fast, but as far as the North East sector is concerned the COD schedule itself July 2020 post that we will have to apply for all the various approvals and it will take some time for us to receive that. Also on these two current assets there are tranches, which get transferred you do not get approval for the entire percentage you first get approval for X then you have to further increase it. So it is a combination of various approvals at various stages.

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

Renu Baid: Sir three questions from my side. a) You have mentioned in terms of cash flows then why have we not factoring in this, whatever 40-50% of the cash proceeds Rs 400-500 Crores debt reduction target for the end of FY2020 and keeping it flat at Rs 800-1,000 Crores. So first question is that, why the debt guidance is not in line with the expected cash flows, second would be after these BOOT assets what is the roadmap of the rest of the asset divestment that we have largely the real estate assets on block and that you have already highlighted and third is the fact that we are looking to take most of our businesses including some projection pipelines rail, and even in JMC international why have we not looked at solar EPC as a business aggressively outside India especially Middle East Africa where Kalpataru has strong execution capability so what have been the reasons why you stayed away from that opportunity so far?

Manish Mohnot: Let me first answer your first question. All the expected cash flows are based on approvals, which should come in over a defined period of time. We have clearly articulated that there are two different transactions in this no impact of it which we have considered. We do not today want to get into guidance because the approvals are beyond us, it is you know the LTTCs, the SPVs, the regulators all of them who need to approve it. So that is why we are quantifying it separately and obviously when it comes in we have clearly articulated that this would be used for three reasons one is reduction in debt primary reason second is increase capex for future growth and third working capital. We would be in a position to guide there is a lot more closure at the end of Q2, which is by the time some approvals would be in place. That is on the first one. On the second question what is the plan for the other assets I think we have clearly articulated this in our previous call also. As far as transmission assets are concerned we have sold three of them or we have signed binding agreement for three of them, the fourth one also should happen over a period of time. As far as road assets are concerned we continue to look at strategic investors, we have commenced discussions with various parties, but yes that is also in the radar and hopefully in the current year we should have some news on that also before the year end. As far as our indore real estate project is concerned we have been guiding the street that we expect to exit that asset in 2021 significant portion of it because the asset would be completely ready in terms of construction by next year and that is the time we expect to exit significant portion of that asset if not full.

Renu Baid: And what would be the kind of cash proceeds that one would expect from Indore project?

Manish Mohnot: So I think the total investment in Indore is in the range of Rs 325 Crores as we expect that we should get that amount back in the next couple of years. Answering your third question solar EPC I had articulated this earlier also Renu that our core focus is right now ensure that wherever we are we strengthen our leadership position there and from our own analysis while solar EPC is a great business for a lot of developers we have not seen many contractors make the kind of returns, which we have made in our core business and with limited working capital with so much opportunities in the core businesses our focus is if we focus on the existing businesses we can continue to grow at 15%, 20% and continue to improve our return ratios you would have seen that in the last five years our ROCE has gone up from 12% to 19% without the divestment proceeds. With the divestment proceeds it will further go up. So focusing on what our strengths are and focusing on the balance sheet we have said that let us focus on the core business make that much stronger, there is a huge opportunity and we look at diversification only within the core businesses.

Renu Baid: And can one broadly assume that approximately 50% of the cash proceeds from these T&D asset sales will be used for deleveraging?

Manish Mohnot: In totality yes, whether all of that would happen on year one or year two is difficult because current year we have planned a lot of capex for KPTL.

Renu Baid: Two years bucket?

Manish Mohnot: Yes in totality definitely more than 50% should be used for reduction in debt levels.

Renu Baid: Thank you so much Sir and all the best.

Moderator: Thank you. The next question is from the line of Deepak Narnolia from Birla Sun Life Insurance. Please go ahead.

Deepak Narnolia: I have one housekeeping question actually that you have infused Rs 100 Crores in Shubham capital as preference capital, but the debt level in that company has not decreased and it is at around Rs 450 Crores, which is the at the same level as fourth quarter?

Manish Mohnot: I think from a debt perspective the preference capital is also shown as loan in the entire debt perspective so they have used this to repay external debt.

Deepak Narnolia: So this debt is now including that preference capital?

Manish Mohnot: Yes. So the new accounting norms I think although I am in accountant background but these are all the new accounting norms.

Deepak Narnolia: Thank you.

Moderator: Thank you. The next question is from the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.

Dhruv Bhatia: Sir couple of questions on JMC. Firstly how much of incremental funding would you require for this year for the BOT assets?

Manoj Tulsian: We had initially given estimate for the full year of around I think Rs 65 odd Crores between 65 and 70.

Dhruv Bhatia: How much of that would be required for the loss funding and for interest repayment?

Manoj Tulsian: No, most of it is towards repayment.

Dhruv Bhatia: Second is Sir on the infrastructure order book of 35% are the margins similar to the company level margins and are the working capitals also at similar levels?

Manoj Tulsian: Well I think the Q1 performance itself answers both the question and even the last year performance because the entire growth, which has happened, has happened in infrastructure business even in Q1 our infrastructure business has grown by almost 90% and factories and building grown by around 6%. So that basically answers both the question because the working capital is also under check and the margins only have improved.

Dhruv Bhatia: And lastly Sir on you have guided for a 20% growth on the topline and still maintaining borrowings at Rs 800 Crores should that imply that we are expecting the working capital days to come down?

Manoj Tulsian: Well, there has been sincere efforts on working capital management in the business and even if you see last two years we have almost grown at 18% to 20%, but the working capital has not gone up to that extent despite infusing so much of money into the BOTs as well as doing huge amount of capex. So we have still avenues there we feel that we would be able to bring down some of our stuck money with some government departments and other places and still remain within these numbers.

Dhruv Bhatia: Thank you so much.

Moderator: Thank you. The next question is from the line of Chinmay Gandre from Bharti AXA Life Insurance. Please go ahead.

Chinmay Gandre: Sir on the interest cost our overall annual guidance is roughly I think 1.7%-1.8% as a percentage of sales and this quarter we are at in excess of 2%, so do we hold by that guidance?

Manish Mohnot: Yes, I think we are still holding to the guidance of 1.7% to 1.8% and I think we are reasonably confident we should be as we said the first quarter had a lot of investments, which came in and typically Q1 is always high on debt if you look at the previous two years numbers also you will see that Q1 debt typically goes up and it comes down significantly as you get into Q3, Q4, so on overall basis we still are confident of achieving that guidance of 1.7% to 1.8%.

Chinmay Gandre: Sir and the payment for Linjemontage have been made and correspondingly the debt is also higher by that amount for the Q1?

Manish Mohnot: Yes, the payment has all been made and to that extent outflow has been done and that come in to investment from one side and debt on the other side.

Chinmay Gandre: And also Shubham you have invested Rs 100 Crores so that is also reflected in the borrowings?

Manish Mohnot: Yes Shubham was also done in Q1.

Chinmay Gandre: So both these would be like long-term debt, which are there?

Manish Mohnot: Yes, so both of them were planned anyway, so this is all planned out of some expected internal accruals and cash flows. You are aware that we expect some cash flows to come in over on sale of assets as well as internal accruals so both of them were anyway planned and we had planned for this at the beginning of the year itself.

Chinmay Gandre: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sheyas Bhukhanwala from Canara Robeco Mutual Fund. Please go ahead.

Sheyas Bhukhanwala: Sir just two questions one is how much have we invested in transmission BOT this quarter?

Manish Mohnot: I think for the quarter we have invested approximately Rs 40 odd Crores and we have a balance commitment in the range of Rs 90 odd Crores, which we need to invest over the next four odd quarters.

Sheyas Bhukhanwala: And Sir secondly on the Indore real estate so total investment would be around Rs 400 Crores so of that how much we have totally invested as of now?

Manish Mohnot: I think the total investment has already done in terms of whatever investment is required we really done maybe Rs 5-10 Crores here and there which is left but otherwise significant portion of the investment has already done we do not expect any further investment. Total investment is around Rs 330 Crores out of which equity is Rs 151 and the balance is debt.

Sheyas Bhukhanwala: And Sir one last question is how is the profitability on Linjemontage?

Manish Mohnot: We had indicated this also when we had acquired that Linjemontage when we required the EBITDA margins continue to be in the range of 4% to 5% we are not expecting that to improve significantly in the current year we had clearly articulated that this all improvements in terms of procurement, in terms of strategic sourcing, in terms of spending, all of that would happen over a period of time. So we expect we do not see a huge EBITDA margin improvement coming in to that business in the current year itself, but over a period of time I target this to get them to gradually increase and get them to the levels at which KPTL is but not immediately.

Sheyas Bhukhanwala: Thanks.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Asset Management Company. Please go ahead.

Bhagyesh Kagalkar: Sir can you share more details on capex in both Kalpataru & JMC for this year as well as next year and what is the capex about?

Manish Mohnot: We had indicated at the beginning of the year that for the current year our capex plan for both the companies is relatively higher than the previous four to five years, if you look at KPTL last five years typically our capex has been equivalent to depreciation of Rs 70-80 Crores ,that has been our average for the last five odd years. Present year we expect capex to be in the range of Rs 200 plus Crores driven by capex in some of our international businesses, driven by capex in some of our plant expansions for railway structure manufacturing, driven by capex in oil & gas business where there is a lot of opportunities, so we expect capex to be in the range of Rs 200 plus Crores and coming out of internal accruals through and also some cash flows, which I expected through the sale of assets. As far as JMC is concerned we are targeting for capex more in the range of Rs 100-125 Crores for the year and we should be in the range of Rs 100 Crores I think this has been our trend in JMC for the last four to five years and it should be similar as far as JMC is concerned. For Shubham we do not expect any significant capex may be more in the range of Rs 5 to 10 Crores, which is more uptick of existing assets, which we have.

Bhagyesh Kagalkar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Kashyap Karthik from Table Tree Advisors. Please go ahead.

Kashyap Karthik: On the JMC bit in the Q4 call of last year we had basically an inflow of about Rs 6,000 Crores of orders this year are we still sticking by it and that is it was mentioned that there is about Rs 3,000 Crores of factories and buildings is what we expected the Rs 6,000 Crores order inflow so just wanted to get some view on that?

Manoj Tulsian: Yes, absolutely we still stick to that same guidance of Rs 6,000 Crores plus and in fact the visibility on the institutional and commercial and residential orders is better so if you see whatever Rs 1,100 Crores of order book what we have declared most of it has come from the factories and building side and we have a good visibility during this year for the balance nine months again from the institutional pack and commercial pack so maybe we can actually cross Rs 3,000 Crores we might go up anything between Rs 3,000 to 4,000 Crores and the infra pack can be anything between Rs 2,000 to 2,500 Crores.

Kashyap Karthik: Sir the other bit around MP order so we executed about Rs 70 Crores do we expect a large execution because we had committed about Rs 400 Crores of execution this year on the MP order or more do we expect a large execution in Q3, Q4 or is it Q2?

Manoj Tulsian: Well yes I think the scenario will improve in Q3 and Q4 further, Q2 may not be anything much larger than what we have done in Q1 and next year it will really pickup at a very large base.

Kashyap Karthik: Last question Sir on the depreciation bit we see a steep jump from Rs 18 Crores to 26 Crores between March 31, 2019 and June 30, 2019 so there is a Rs 8 Crores jump and then other expense as well even if I kind of take out the one-off of Rs 5 Crores, which was spent on political expenses. There has been a steep jump there as well. So if you could just give us some color on both depreciation jump and other expenses jump?

Manoj Tulsian: Depreciation the new accounting standard have come, which has got introduced from April 1, 2019 because of which there is adjustment of Rs 3 Crores of the depreciation for the period has gone up by Rs 3 Crores which is correspondingly reflected in the EBITDA. So Rs 3 Crores is on that account and there has been a good chunk of capitalization, which happened in the month of March almost to the tune of around Rs 100 odd Crores. Because of this the depreciation has increased starting from April 1, 2019 itself. So these are the two reasons and going forward it would be in this range during the year and the other expenses there are a few flexible components nowadays in the other expenses, one of course the one-off thing, which we have said, the other things are like exchange rate variations and the ECL provision, which keeps moving up and down every quarter based on some of the parameters, but I have to say on a reasonable basis the expense side of this would be close to around Rs 30 Crores or per quarter, the rest will be adjustments on account of either a foreign exchange gain or a loss or maybe a ECL credit or a ECL charge in a particular quarter.

Kashyap Karthik: We said Rs 30 Crores right?

Manoj Tulsian: Rs 30 Crores.

Kashyap Karthik: Thank you so much Sir.

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

Aditya Mongia: Congratulations for a very good strong set of results again this time around. I had two questions one was more of a clarification in the Swedish acquisition that you have done is being treated as a different subsidiary or are the standalone numbers involving that impact also of revenues and EBITDA?

Manish Mohnot: As far as Linjemontage is concerned the numbers get included in consolidated, on a standalone the numbers are not included whatever results we have declared.

Aditya Mongia: Even the order inflow guidance that you are giving is basically like-to-like right so there is no order inflow component of the Swedish subsidiary inside the guidance number?

Manish Mohnot: Order inflow component the Rs 9,000 to 10,000 Crores, which we have guided at the beginning of the year includes the Swedish component because this we were aware of it at the beginning of the year when we did that call because it is core T&D. So the order inflow guidance is approximately Rs 10,000 Crores includes the Swedish component also.

Aditya Mongia: And again just to clarify this first quarter number of order inflow does it also include some part or that obviously will not?

Manish Mohnot: Yes, for the first quarter out of the number which we have declared there is approximately Rs 69 odd Crores, which comes out of Linjemontage. So out of the Rs 2,300 Crores number, which we have declared till now Rs 1,814 crores in first quarter and Rs 455 crores yesterday the Rs 69 Crores, which pertains to Linjemontage.

Aditya Mongia: Why I am asking this question Sir when we are modeling the company on a revenue on an EBITDA basis we are relying on the order inflow numbers and the backlog numbers that you are providing this was the standalone entity I am saying so I am just trying to kind of clarify everything is comparable because revenue number as you are saying standalone does not include any component from the acquisition, but the order inflow component and maybe the backlog also includes?

Manish Mohnot: Yes, so that is way it is clarifying that of the backlog if you look at it out of the Rs 14,745 Crores what we have Rs 14,350 crore is approximately the standalone, Rs 400 Crores is Linjemontage, of the L1 position of around Rs 2,600 Crores there is around Rs 2,350 crore, which is standalone and there is approximately Rs 250 crore, which is Linjemontage.

Aditya Mongia: That clarifies it completely. Just one more question from my side?

Moderator: Mr. Mongia, sorry sir, but, if you have any more questions request you to rejoin the queue please.

Aditya Mongia: Thank you.

Moderator: Thank you. The next question is from the line of Ankush Mahajan from JM Financial. Please go ahead.

Ankush Mahajan: My question is pertaining to JMC. Sir this year we are looking at 6% to 7% growth in building and factories and if we see the proportion of inflow in building and factories is also quite high. So sir any chances that how do you see sir basically execution in building and factories part can we say sir and during this challenging environment our growth could be on the lower side in this segment?

Manoj Tulsian: Till now see there are two things one as I have been very bullish on the building that happen in the order is for the shear reason that there are many such projects from some of those developers with whom we have been working for years have already in a way committed to us but they are under approval. So some of them can happen in Q3, some of them can happen in Q4, so we may not get a substantial chunk of turnover or sales from those projects. So when we had budgeted at the beginning of the year we had those things into mind because we have spoken to those developers also towards tentative timelines for them to get their approvals and then award the project to us and today the composition of the order book is such that one infra call for lot of execution and we have been able to do that if you see infra last year also we grew close to around 50% and this year again we have a target to grow close to around 50% on the infra because of most of these orders are already in hand where we just need to deliver and execute. On the building side we are slightly careful also because of the environment especially on the residential side not at all on the commercial and institutional side, but on residential they are slightly careful so we try and keep a watch that if there are any type of delays in collecting the sums then we are ready to reduce our sales, which to some extent we have also done that correction in Q1 and otherwise we could have always done even better number, but the focus is clearly on the cash management side when it comes to the residential side of the business. So looking at all these things I think we still feel that for the full year the F&B side will only grow at around 6% to 7%. The major growth only will come from infrastructure for this particular year, next year the F&B side can grow at 12% to 15%.

Ankush Mahajan: Sir which geography we have more concentration order backlog for B&F side?

Manoj Tulsian: It is mainly South, mostly South actually.

Ankush Mahajan: Thank you.

Moderator: Thank you. The next question is from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Sir, I have two questions. Firstly Sir just wanted to clarify you mentioned that the capex in KPTL standalone would be about Rs 200 Crores for the current year?

Manish Mohnot: Yes.

Jonas Bhutta: And if that is the case Sir just wanted to dive that in from the inflows that you receive from the T&D asset sale, which you said is going to be roughly Rs 450 to 500 Crores in FY2020 of which part of that would go in debt repayment, part of that would go in working capital management and growth capex, but what we also noticed Sir the KPTL on its own and with JV partners has also bid for GC related BOOT projects to the tune of almost Rs 10,000 Crores not implying that all of that actually comes to KPTL, but would you expect that if you were awarded a BOOT project now how much of that would you set aside in terms of equity infusion further for new T&D BOOT asset Sir?

Manish Mohnot: Let me first answer your second question we had not bid for projects worth approximately Rs 10,000 Crores, we had shown interest in a couple of projects and we have lost both of them, but as of now so our probability of winning any projects out of the wind energy corridor as a developer is zero. We are focusing now only as an EPC contractor for those projects so that hopefully clears your second question. As far as the first question is concerned I think Rs 200 Crores is what we have planned and that would happen from both debt as well as internal accruals as well as cash flow. The timing of it is something, which would be slightly fluid in terms of it will happen during the year, but exact timing it was difficult for us to tell you now.

Jonas Bhutta: And my second question Sir was that was only my first question.

Moderator: But due to time constraint we need to move to the next participant please.

Jonas Bhutta: Okay.

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

Bharat Seth: Sir in your initial remark as well as in our annual report stated that some digital initiative so how do we see that can help us reduction in the cost or improving EBITDA how do we see that to play out?

Manish Mohnot: Bharat bhai we have started a huge exercise of digital initiative implementation across the globe, which includes things related to SAP for an upgrade using drones, a lot of other things, we do not immediately see any impact coming in EBITDA in the next few years because these are things, which has to be driven by a lot of changes at the group level it is not the head of, but it is the site, which makes the difference. So personally if you ask me this will help us in productivity improvement, but getting it into converted to EBITDA or profitability will still take us a few years by the time we reach there.

Bharat Seth: Thank you Sir. That is all.

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

Prem Khurana: Sir my question is with respect to JMC. So basically I think the last time we spoke we were working on rather you see term sheets for refinancing of some of our assets on the BOT toll assets any progress there or any progress and tend to kind of monetize some of these assets?

Manoj Tulsian: No Prem on the monetizing side we have already said that we are actively working on that and possibly something will come out very soon and so that is one of the reasons that we are not trying to look at both side in the same point of time and second some opportunities, which we had at the beginning of the year in terms of looking at a refinancing has not really materialized to that extent because of this IL&FS episode, so people who are willing to fund suddenly they got into lot of challenges in terms of multiple audits and all those things and it was becoming very difficult for us to connect back to them and they have also slightly backedout on those things so the refinancing thing immediately does not look like we will be in fact also waiting for the RBI circular to again get modified and come back with the 5-25 scheme which also there is still not done. So we are talking to financiers but nothing concrete as far as the refinancing is concerned at this point of time.

Prem Khurana: But if I were to consider that you would not be able to sell it for let us for instance if we would have achieved that by when would you be able to kind of have a situation where in these SPVs would be able to kind of meet their obligation on their own and you would not be require any kind of support because every year we have been investing 40, 50 or rather this year it is around Rs.65 odd Crores so there could be a situation where in these SPVs are able to meet their obligation on their own let us say two years and for three years and have we done that kind of exercise internally?

Manoj Tulsian: Prem every asset is unique in its own way and if we have a very different set of challenges so we have not worked out, but I think even in next two years if we have some of these assets continuing with us it may not be able to meet their repayment obligations, in some sort of losses there are no cash losses, but the repayment obligation to some extent I think still we might need to continue to fund, but that is a scenario only when we continue to carry these assets in our books even beyond 24 months, which maybe most unlikely scenario.

Prem Khurana: I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Can you help us bridge the doubling of the debt on the standalone basis from Rs 500 to 1000 Crores this quarter. So Rs 100 Crores you mentioned is Shubham, Rs 130 odd Crores is Linjemontage could be help us on the balance part please?

Manish Mohnot: The balance is working capital requirements driven by one the increase in turnover and second typically Q1 collections are always stretched after significant collections in Q4 and that is what you would have seen in the last two, three years not only for us but across the industry.

Bhavin Vithlani: What was the capex in the first quarter?

Manish Mohnot: The capex in the first quarter has been not significant we have done capex of approximately Rs 40 odd Crores plus we have invested Rs 40 odd Crores in the transmission BOOT assets so if you look at it around Rs 80 odd Crores would have gone in capex and transmission BOOT assets and the balance is in working capital.

Bhavin Vithlani: Thank you so much.

Moderator: Thank you. We take the last question, which is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Sir I just need the one number so what is the revenue number you have guided for Linjemontage for this year?

Manish Mohnot: We are looking at approximately $70 to $80 million of revenue for Linjemontage for the current year.

Kunal Sheth: Thank you so much.

Moderator: Thank you. Ladies and gentlemen due to time constraint I would now like to hand the conference over to Ms. Bhoomika Nair from IDFC Securities for closing comments.

Bhoomika Nair: On behalf of IDFC Securities I would just like to thank everybody for being on the call and the management for giving us an opportunity to host the call. Thank you very much Sir for taking time out for the call.

Manish Mohnot: Thank you very much Bhoomika and thanks to everyone.

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