"Kalpataru Power Transmission and JMC Projects Q2 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day, welcome to the Kalpataru Power & JMCs Q2 FY2019 Earnings Conference call hosted by IDFC Securities. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Madam!

Bhoomika Nair: Thanks Janice. Good morning everyone. On behalf of IDFC Securities I would like to welcome you to the Q2 2019 earnings call of Kalpataru Power Transmission and JMC Projects. The management today is being represented by Mr. Manish Mohnot – Managing Director and CEO, Mr. Kamal Jain – Director Finance and CFO and Mr. Manoj Tulsian – Whole-Time Director and CFO of JMC Projects. I will now handover the call to Mr. Manish Mohnot for his initial remarks post which we will open up the floor for Q&A. Over to you Sir!

Manish Mohnot: Thank you Bhoomika. good morning to everyone, I am thankful to you for making yourself available to attending this call and for your continued interest in KPTL and JMC. I am happy to inform you that we have delivered a strong quarter with good set of numbers for KPTL, JMC and Shree Shubham Logistics. Our continuous focus on pursuing profitable growth is clearly demonstrated in our result for past year and the last two quarters have been much, much better.

Over the past few years we have undertaken numerous initiatives towards cost efficiency, early completion of projects and automation and which are visible in our improved operating margins across all the group companies. At KPTL, we continue to maintain leadership position in the T&D, oil & gas pipeline and railways with sizable order book to be executed over the next couple of years.

We continue to remain optimistic for opportunities in international T&D, railways and oil & gas pipeline. At KPTL and JMC, we have an all time high order book of over Rs.14000 Crores for KPTL and over Rs.10000 Crores for JMC. This provides good visibility for future growth. Overall, we are confident of delivering a 15% to 20% revenue growth on a full-year basis for both KPTL and JMC.

Getting into more details on our performance, at KPTL, we have delivered a Y-o-Y revenue growth of 29% for Q2 FY2019, on half yearly basis our T&D business has grown by 10%, railways by 35% and pipeline by over 100% in FY2019 till date. In first half of financial year 2019 our revenue growth on a like-to-like basis was 22% Y-o-Y.

Our core EBITDA is Rs.171 Crores in Q2 FY2019 with 10.9% EBITDA margin. In first half of FY2019, our EBITDA margin is 11.3%. We have delivered strong EBITDA margin on the back of various cost reduction initiatives and focus on project execution.

Our standalone net borrowings at the end of September 2018 is Rs.872 Crores compared to Rs.1030 Crores at the end of June 2018. Our interest cost as a percentage of revenue for Q2 FY2019 is 1.8%. Our debt levels and interest rate remains at comfortable level and below the guided range for the year as a whole. Our PBT for Q2 is Rs.140 Crores a growth of 32% on a Y-o-Y basis and PAT of Rs.91 Crores a growth of 28% on Y-o-Y basis.

For H1 FY2019 our PBT is Rs. 265 Crores and PAT of Rs. 172 Crores a Y-o-Y growth of 24% and 21% respectively. Our order book as on 30th September 2018 is at Rs. 14179 Crores, our order intake till date in FY2019 is Rs.4743 Crores. Incrementally we have L1 position of over Rs. 2000 Crores as on date. Our current L1 orders are primarily from T&D division both in domestic and international markets.

Our JMC revenue for the Q2 FY2019 is at Rs.734 Crores a Y-o-Y growth of 11%. For H1 FY2019 revenue growth was 11% Y-o-Y on a like-to-like basis. Our core EBITDA for Q2 FY2019 is Rs. 78 Crores with margin of 10.6% which is a 60 basis point improvement over Q2 FY2018. For H1 2019, EBITDA margin improved by 50 basis points Y-o-Y to reach 10.4%. Our standalone net borrowing at JMC has reduced to Rs.650 Crores at the end of September 2018 in comparison to Rs.784 Crores at the end of June 2018.

Our PBT for Q2 FY2019 is at Rs.39 Crores a growth of 17% on Y-o-Y basis and PAT of Rs. 30 Crores a growth of 20% on a Y-o-Y basis. For H1 FY2019 PBT is Rs. 74 Crores a growth of 11% and PAT is Rs. 57 Crores a growth of 21% on Y-o-Y basis. At JMC our order book is Rs.10129 Crores at the end of September 2018. Our order inflow till date is Rs.3978 Crores largely driven by infrastructure projects. Additionally, we have L1 position orders of over Rs.600 Crores at JMC.

Our road BOT assets continue to witness good growth in traffic, our toll collections for the entire four road BOT assets excluding over loading grew by 13.3% in H1 FY2019 compared to H1 FY2018. Our average daily revenue was Rs.49.5 lakhs per day in Q2 FY2019 as compared to Rs. 44.1 lakhs per day achieved in Q2 FY2018.

At Shubham Logistics, we continue deliver improvement in utilization levels of our warehouses and scaling up through lease based model. The revenue for Q2 FY2019 was Rs.23 Crores a growth of 92% on a Y-o-Y basis for the H1 FY 2019 revenue has grown by over 100% to Rs. 63 Crores.

Our EBITDA at Shubham was Rs. 11 Crores a growth of 58% on Y-o-Y basis. As indicated in the beginning of the year of a positive PBT. We have already seen positive PBT in the first six months a PBT of Rs. 1.2 Crores and PAT of Rs. 0.9 Crores. We are confident of achieving similar success at Shubham in the next six months.

On a consol level at KPTL, our performance continues to improve significantly, our revenue has reached Rs. 4564 Crores in the H1 of 2019 a growth of 18% Y-o-Y, our EBITDA margin is 13% for H1 2019 an improvement of 110 basis points. Our PBT is Rs. 312 Crores growth of 71% and PAT has grown by 103% to reach Rs. 203 Crores.

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

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

Renu Baid: Congratulations for the strong performance at KPTL. My first question is to understand this 29% kind of sales execution ramp up that we have seen in this quarter what has been the key drivers as in which segments have led to this growth and despite almost 20% growth in the first half you are maintaining revenue guidance between 15% to 20%. So do you see there would be an upside risk if the execution momentum sustains in the second half. That is it?

Manish Mohnot: Our Q2 performance has seen a big pickup in railways and oil & gas pipeline. Oil & gas pipeline and railways we had indicated that our order book is good and the revenue should grow up there significantly. If you look at oil & gas pipeline we have grown by more than 100% in Q2 and we expect similar performances going into Q3, Q4 and next year also. On a totality if you look at it, the T&D business has just grown by 10% in the first six months and the balance the real growth has come from the oil & gas pipelines and railways business.

As far as the projections are concerned looking at the order book which we have visibility, we believe we should be comfortably in the range of 15% to 20% plus minus a few percentages obviously will revisit at the end of Q3 but as of now we are maintaining the same target of 15% to 20% growth in topline and with EBITDA margins in the range of 11% for KPTL and the range of 10.5-10.7% for JMC.

Renu Baid: But do you see any external headwinds which can taper off as in the second half performance and bring us to the lower end of the guidance?

Manish Mohnot: So looks very difficult as of now we would reasonably be on the upper side of the guidance unless there are factors which are completely beyond our control. As of today it looks like we should be easily be in that range of more closer towards 20% in the range of 15-20% but on the upper side.

Renu Baid: And Sir within if you or Kamal Ji can share what exactly was in rupee terms the sales mix between oil & gas and the railways segment for us?

Manish Mohnot: If you look at Q2 FY2019 our T&D was around Rs. 1100 odd Crores and our oil & gas and railway was around Rs. 470 odd Crores.

Renu Baid: And within this railways would be how large?

Manish Mohnot: Railways would be let us say 40% and 60% would be oil & gas.

Renu Baid: Sure. Sir second question is overall as an execution has picked up despite that we have seen a Q-o-Q reduction in debt and interest expenses have still remain flattish. So how do we read into working capital trends and what has helped at reduction is it more of advances coming, better collections and do we see any headwinds with the tightening liquidity environment going ahead on the interest side?

Manish Mohnot: On a debt level as we had indicated in last quarter also as of June end there were some inflows which did not come in, but it got corrected immediately when we have entered into July. So if you remember last quarter also we had said at the end of July quarter we had already reached Rs. 800 odd Crores. So we are on target as far as debt levels are concerned and we still stick to our targeted debt levels of Rs. 1000 to Rs. 1100 Crores at the year end as far as KPTL is concerned.

On the interest cost side if you look at our balance sheet a lot of our borrowings today is more long-term in nature. So in the last 12 odd months we had moved into borrowings which are more three, four, five years long-term at a reasonable interest rate and hence any headwinds on interest rates going up is not impacting us much. There is a slight impact on us but it is not as much as it would be let us say a few years when we had more short-term borrowings and less long-term borrowings. Today our long-term borrowings is more than 70% at the standalone level and short-term borrowings is only around 30%.

Renu Baid: And my last question if I can ask an update on Shubham Logistics, we had plans to increase equity of about Rs. 70-80 Crores. So do we still think there would be a requirement of equity infusion in that business now that it is sustainably in the manageable zone and if so by when should one expect that?

Manish Mohnot: We still believe that equity infusion of Rs. 70 to Rs. 80 Crores would be required at Shubham primarily to repay the debt which is more long-term in nature, we still believe that would be required and my personal view is that Q3, Q4 more likely in Q4, this equity infusion should be done.

Renu Baid: Alright sir thank you so much and all the best.

Moderator: Thank you. We would take the next question from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Congratulations on a very good set of numbers. Sir if you can give us some sense on how the T&D market is shaping up both in India as well as international markets and which are the key markets that you are focusing on?

Manish Mohnot: See on the T&D side, our focus on growth is a lot more in the international markets and where primarily we are focused on Africa and we are seeing also some positive signs coming from the Middle East markets, so our focus continue to be Africa, South East Asia, neighboring countries of India, Middle East and CIS. As far as the domestic market is concerned we had indicated earlier also we are not seeing such a big upturn in terms of new orders coming up and that is where growth there is very limited and it is visible that in the order book itself. As far as domestic markets is concerned, we are more focused on SEBs, we are more focused on some private sector opportunities and also PGCIL, but we are not very optimistic of having a high growth rate there at least for the next few years, our T&D growth would primarily come from the international business.

Kunal Sheth: On JMC Sir what is the kind of will we still need to infuse funds in our assets so now they are starting to breakeven?

Manoj Tulsian: As we motioned the beginning of the year also that most of the infusion during the year which will happen will go towards repayment of debt, so in the H1 also we have infused around Rs. 22 Crores out of which almost Rs. 18 Crores has gone towards repayment and Rs. 3 Crores towards Capex so for the operating cash flow as proportion it will be only Rs. 1 Crore of infusion n the first six months.

Kunal Sheth: And Sir my last question on JMC, JMC has YTD seen a very, very strong year end we are even L1 in Rs. 600 Crores kind of a number so where do we see in terms of order flow JMC ending for this year.

Manoj Tulsian: We still feel we should be somewhere around Rs. 5500 Crores of new orders..

Kunal Sheth: Thank you so much.

Moderator: Thank you. Next question is from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: Sir just on the KPTL L1 of Rs. 2000 Crores can you please provide some granularity on this given that the order outstanding is declining for transmission.

Manish Mohnot: Girish out of the Rs. 2000 Crores 80% to 85% pertains to the transmission T&D division out of that I would say more than 60% to 65% is international, and balance is domestic, around 10% to 15% out of the L1 pertains to railway and oil & gas, but 85% around Rs. 1700 plus Crores pertains to the transmission segment and some of them we have already got the orders in October and we believe the balance should be all coming in November and latest by December first week.

Girish Raj: Since our order book is now heavy on railways. Will there be any margin surprises in one of the quarters because the execution may happen on the railways side.

Manish Mohnot: If you see historically last few years railways we have whatever first few years when we started growing this business margins were not very good. We had a lot of cost in terms of building the entire team, ramping up the structure, Capex, taking projects at lower prices so that you get the PQs all of that. So as of today I think we are reasonably confident that the current order book of railway is at the margin levels which is very similar to oil & gas in the range of 9% to 11%. It is not still as attractive as it is in the T&D division which is more in the range of 11% to 12% but we are very confident of a 9% to 11% on a totality. As far as the execution is concerned with this kind of order book I do not see any surprises coming in plus, minus a few Rs. 10, Rs. 20 Crores here and there can happen, but it is not like because there is enough work across all projects in India and overseas, we have also got a big project in Bangladesh so we do not see any surprises coming up in terms of revenue at least for the next four to six quarters.

Girish Raj: And if we back calculate the railway execution it comes to around Rs. 56 Crores revenue this particular quarter, but you mentioned some other number?

Manish Mohnot: I think the railways execution this quarter was around Rs. 150 plus Crores I do not know what is the back track calculations you have done so railways is around 150, infra is 300 plus and 1100 is T&D.

Girish Raj: I will check with Kamal Ji and the last question is on the other expenses both JMC and KPTL, it is very volatile in the particular JMC Q1 and Q2, can you explain that please?

Manoj Tulsian: See last year Q1 duties and taxes were applicable so that was there to the extent of around Rs. 30 Crores. So if you remove that then you will not see the volatility.

Girish Raj: The first quarter was 8 Crores and second quarter was 21.9.

Manoj Tulsian: Other expenses overall.

Girish Raj: Yes.

Manoj Tulsian: See on a H1 basis if you really see the only difference is the Rs. 30 Crores which was there included in other expenses and turnover for Q1 of last year.

Girish Raj: So Rs. 30 Crore is the good base for run rate basis know?

Manoj Tulsian: Yes.

Girish Raj: Thank you very much I will come back in the queue.

Moderator: Thank you. Next question is from the line of Varun Agarwal from BOI AXA. Please go ahead.

Varun Agarwal: Sir my question on JMC side, so basically next six months in particularly JMC do you see any challenge on the execution side?

Manoj Tulsian: No we are very much on track and as we had maintained at the beginning of the year that progressively every quarter you will see we are better than the previous quarter and the reason why we mentioned that some of the new orders which we got at the beginning of the year. The large order we are still not factoring that as started executing in the Q4, but other than that the orders which we have received will start execution from Q3, so we have at least six orders which will start the execution in Q3 and fully ramp up in Q4. So we are on target.

Varun Agarwal: Sir my question was pertaining more to issues like the funding constraint from NBFCs and generally the real estate side. So do you see any challenges from that front or do you think most of our clients are better placed in terms of funding and the liquidity side?

Manoj Tulsian: No see if you ask me I think we have delisted ourselves from some of these things long back. So our exposure from NBFCs is very limited or zero I would say that way and in terms of real estate, we still presume we are only with those very decent market developers where they also understand how to manage their cash so and we are cautious also at the same time. So we do not see much challenge. Also in H2 the major growth will come from the infrastructure side. So we are not targeting huge growth on the building side. They continue to perform the way they have performed in H1 and the majority growth comes from infrastructure.

Varun Agarwal: Sir basically the order inflow going forward you are targeting Rs.5500 crores, do you see the in case of ordering more towards HAM project or you see you still focus on the infra side?

Manoj Tulsian: No we have mentioned it long back that we are not at all concentrating on HAM projects for the simple reason that we are very cautious about our balance sheet management also. Given that we already have BOT projects right now, we have not even bid for any of the HAM projects. So capital allocation plan is in place.

Varun Agarwal: Thanks a lot to answering my question, I will get back in queue for other questions.

Moderator: Thank you. We would take the next question from the line of Subramanyam Yadav from Subhkam Ventures. Please go ahead.

Subramanyam Yadav: My question pertains to JMC only, Sir if you can share the profile of the developers in the south and any credit rating of that if possible.

Manoj Tulsian: No credit rating I do not remember offline but I can give you some of those names which are Prestige, Brigade, Puravankara, Hiranandani, Embassy, RMZ. So these are those major names with which we have been working for years and we continue to work with them and then other than that some of the other developers with whom we work across the country is Tata's, Mahindra's and of course some portion of Kalpataru.

Subramanyam Yadav: And you do not see any slowdown or any indication of slowdown from any of the developer going forward?

Manoj Tulsian: Well as I mentioned if you see these names they are the best of the names and they understand they have the strength and ability to tide over situations like this. Not that yes the B class, or the C class developers, we also presume will definitely get affected maybe in the short-run maybe for next three months or so, but with these names we are quite comfortable and at least we are not seeing any level of stress even during the month.

Subramanyam Yadav: And Sir we have some exposure to Emaar also in the north. Can you quantify the amount with the Emaar and how are they dealing this currently?

Manoj Tulsian: No Emaar project is almost coming to a closure I think if I am not mistaken maybe we would be completing the project by January or February end and till date the payment has not been a concern. They are ranging within the same 60 days. Actually the payments are good.

Subramanyam Yadav: And sir regarding the BOT the performance has been continuously improving quarter-after-quarter. So still you stick to the funding of around Rs. 60 Crores including the debt repayment?

Manoj Tulsian: Yes, because my debt repayment during the year itself is around Rs. 60 Crores.

Subramanyam Yadav: Not any operational funding like you said only Rs. 1 Crore has gone.

Manoj Tulsian: That is what I am presuming that during this year because H2 will be even better than H1 additionally. So my incremental requirement for funding operating loss will come down further and actually it will be on the plus side. So which will help me in funding the entire amount towards repayment only and there is some amount of capex. So as I mentioned sometime back we have already funded around Rs. 3 Crores on capex and there would be some more capex in H2.

Subramanyam Yadav: And Sir any update on the Wainganga project?

Manoj Tulsian: It is in the public domain what I can say more than that.

Subramanyam Yadav: Okay fine Sir great. Thank you Sir. Thank you very much.

Moderator: Thank you. We would take the next question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.

Bhalchandra Shinde: Sir regarding exports I would like to know apart from T&D, are we looking out for any railway projects I know we have got something from Bangladesh but apart from that any other country we are targeting?

Manish Mohnot: Yes, we are looking at overseas opportunities in both railways and oil and gas not only in the neighboring countries but also in some African countries and over the next few quarters, if not before that we should be able to get something in this category.

Bhalchandra Shinde: And most of the order is booked on dollar term or in African it will be more on the Zar or it is in a dollar term only?

Manish Mohnot: Majority of our orders are in dollar terms only because majority of them is not all are funded by funding agencies and it is all in dollars.

Bhalchandra Shinde: So is rupee depreciation going to benefit us in future how exactly we see as a benefit or we will pass through and try to acquire more orders?

Kamal Jain: As far as EBITDA is concerned as a policy normally we are hedged on our exposure at a given point of time so whether the appreciation or depreciation if you would have seen last three, four years it does not have a big impact on our results maybe Rs. 3, 4, 5 Crores here and there. So from a policy perspective it looks good, it sounds good to getting higher revenue when the rupee depreciates, but on profitability it does not have a big impact because of our hedging policy where majority of our exposure ahead the movement we have a project.

Bhalchandra Shinde: Yes but for future orders how because we will be bidding most of the projects in the dollar term. So we will look to bid relatively at 10% lower prices or it will be more or less at the similar prices only?

Manish Mohnot: I think the dollar rupee depreciation or appreciation does not make a difference in terms of our margins and price levels if you bid. It is that the total cost changes from X to 0.9x or 1.1x, so our philosophy is not driven by the rupee appreciation depreciation as much as the core profitability on the project and our ability to execute in the shortest timeframe.

Bhalchandra Shinde: Okay thank you Sir.

Moderator: Thank you. We would take the next question from the line of Ranjith Shivram from ICICI Securities. Please go ahead.

Ranjith Shivram: Congratulations on good execution. Just wanted to I do not know whether somebody has asked this before was there any Forex-related gains during this quarter?

Manish Mohnot: We had a gain of approximately Rs. 5 to 6 Crores over and above the normal course of business in KPTL I do not think it was any significant amount in JMC given that the exposure was limited again some Rs. 4 to 5 Crores in JMC also.

Ranjith Shivram: And whether the growth number was aided by this rupee depreciation because we also do a lot of export so was that, is that the reason that we are still sticking onto our 15% to 20% guidance?

Manish Mohnot: So in terms of revenue there definitely would be some improvement coming in terms of because of the rupee depreciation not as much in terms of profitability in terms of revenue, yes definitely there would be something but that is not going to have a big change because if you look at our international revenue and even if you assume that it had a impact of let us say 5% to 10%, the impact is not significant it could be maybe what we have said 27%, 28% could have been 26%, 27% for Q2. Annualized basis I do not think it would have a big impact we still continue to be in the range of 15% to 20% targeted growth.

Ranjith Shivram: And Sir there has been a lot of concern and talks to get regarding the liquidity scenario and people are talking whether the overall execution can become executed in the H2 so what do you see on the ground are you seeing any concerns in that aspect or you still believe that we will be able to tide over this situation?

Manish Mohnot: So as far as Kalpataru is concerned we are not see any such signs at the ground when it comes to all our clients with whom we are dealing it in India and overseas. If you look at our clients in India primarily public utilities and a few private sector jobs whether it is on railways, whether it is on transmission, whether it is on oil & gas, majority is public sector utilizes where we are seeing no reduction in terms of spending or no such signs of slowdown in any form. As far as international is concerned anyway it has no impact of Indian politics because the majority funded by funding agencies and that there also the speed continues as it is. As far as order book is concerned, we have already got visible order book including L1 of around Rs. 7000 odd Crores, our targeted order book for the year is in the range of Rs. 9000 to Rs. 10000 and we are reasonably sure that we should be able to achieve that.

Ranjith Shivram: And another concern which people have is regarding the collection from the railways and other entities during the fiscal deficit constraints. So just wanted to understand your perspective you are not seeing any issues in terms of delay of payments from the railways or from the oil & gas, such concerns which we have to be aware of?

Manish Mohnot: As far as our operations are concerned we have seen zero delays in any form. I think all our clients in terms of payment are on track so even including the month of October where our collections have far exceeded what our outflow has been so as of today we have seen zero delays in terms of any payment and work which we have executed.

Ranjith Shivram: And Sir lastly this JMC Rs. 80 Crores infusion will be done by Kalpataru or you will be looking at some partner?

Manish Mohnot: JMC or Shubham?

Ranjith Shivram: No Shubham yes sorry.

Manish Mohnot: Shubham I think primarily it would be done by Kalpataru, we would approach our other partners also who are our shareholders but primarily the infusion might be done by Kalpataru.

Ranjith Shivram: And is there any other equity infusion in any of our transmission BOT or anything which is pending this year or this is only infusion?

Manish Mohnot: Our earlier presentation provides the details in first six months we have already infused around Rs. 100 odd Crores in one of our transmission BOT projects actually it is more than Rs.100 crores it is more in the range of Rs. 130 to 140 odd Crores. We have around Rs. 150 Crores further to be infused in the next two years I believe significant portion of it should happen next year. This year should not be very significant.

Ranjith Shivram: So only this Rs. 80 Crores of Shubham will be the major thing?

Manish Mohnot: Yes, and some more on transmission but not significant so I am saying as a totality you can assume 17 maybe 20, 30 more on transmission so around Rs. 100 odd Crores to be infused in subsidiaries.

Ranjith Shivram: So there would not be any major increase in the debt that is what we are coming at, the debt level still remain the same?

Manish Mohnot: So we as I said at the beginning of the call we are confident of keeping our budgeted debt levels to standalone in the range of Rs.1000 to 1100 crores by the year end and we are working hard to make sure that we have maintained those debt levels.

Ranjith Shivram: Okay thank you.

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

Abhineet Anand: Firstly Sir you did mention that you are not seeing any delays in terms of spending from lot of clients. My question is more what will happen in say 4Q and the general elections will be announced. Historically what is your experience in terms of can there be a slowdown in that quarter anyway in terms of inflows?

Manish Mohnot: If you look at KPTL majority of our tenders at the domestic markets come from a lot of PSUs and Navratna’s and people who have more long-term plans. So normally it is not that three months here and there makes a big difference but at the same time given that there is election which should be coming at the end of the year we have already booked in around Rs. 7000 Crores of orders including L1 so we are saying that even if there is a slight slowdown it should not have a big impact on our order inflow for the year, because our target is Rs.9000 to 10000 crores as of today we have visibility on Rs.7000 crores so it should not have a big impact. Personally if you ask me T&D anyway we are not seeing any big orders coming in, in the domestic market, oil & gas pipeline, there are lot of orders coming from private sector players also including Cairn, including Reliance all of them and I do not see any slowdown there. Railways I think given the mission of the government to electrify everything in the next three to five years I do not see any slowdown coming in from a long-term perspective one quarter here and there could happen but it would not have any impact on our revenue forecast or projections or anything like that.

Abhineet Anand: Secondly Sir in terms of railways the inflows in the last two years have been significantly high right. So how is the vendor base developing there because earlier there was not much activity happening say a three, four years back. So the subcontractors to you or the vendors to you, are they equipped enough to take a very strong growth of this 100% etc., or they are still in a development phase?

Manish Mohnot: So if you divide this into two areas one is vendors for material supply and second is subcontractors for civil work at site. I would say vendors for material supply a lot much a lot of things have happened in the last 12 to 18 months a lot of new vendors have got approved across various categories and today it is not limited to the few players which used to be in the past. There is a big positive movement and that is a good movement for the industry as a whole. As far as subcontractors are concerned, yes it is a slow and steady approach. If you ask me on a scale of 10 are we there in terms of being 8 and 9 no it is at 5, 6 it is improving. So it is only a matter of time that you will see a lot many subcontractors coming in there.

Abhineet Anand: Lastly on the JMC side see last year we used to talk about debt restructuring of some of our road projects which I think with RBIs directive that might not happen. So what is the way ahead for the roads apart from the fact that a strong traffic growth is there which will enable good growth but apart from that anything on the financial engineering side where we can do some restructuring etc.?

Manoj Tulsian: We move two steps forward and then again three steps backwards, thanks to things happening very regularly in the financial market and capital market. So we were looking at doing refinancing of two of our assets and we were pretty confident that that will happen by October but it has got delayed. So it is still not very much there, so I think now given the situation it may take extra one or two months. In any case we continue to look at options of even disinvestment in all these SPVs which continues as an event and activity for the last almost couple of years so that continues and so refinancing is possible in two of our out of the four assets which has a very long concession period and there has been active discussion on both of them but only because of a few things which we all know has happened in September. It is slightly on hold and still optimistic that before March for sure these will get signed off. So from next year onwards it will be a big support on these two major projects and that may bring down our investment in SPVs significantly.

Abhineet Anand: So what is the breakeven in terms of the traffic per day that the 49 lakh project please?

Manoj Tulsian: We are in that range of the breakeven now this year is around 49, 49.5 lakh only.

Abhineet Anand: So we are breaking even you are saying at the cash level?

Manoj Tulsian: Yes.

Abhineet Anand: And at the PAT level what could that number be.

Manoj Tulsian: PAT level I think it is around Rs. 63 or Rs. 64 lakh I will still recheck and we can get back on that number. We are still giving out two, three years..

Abhineet Anand: Thanks a lot Sir.

Moderator: Thank you. Next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir this now you have almost Rs. 3700 Crores of order in infrastructure segment so what kind of manpower we have been building here whether we will be outsourcing part of this and what would be the proposition of outsourcing in this and what could be the capex requirement for this year?

Manish Mohnot: This question pertains to…?

Parikshit Kandpal: JMC.

Manoj Tulsian: See labor requirement for these projects whatever ramp up is required Q2 was good and I think Q3 again is supposed to be good because this is the time and labor are there in full swing maybe some aberrations because of again the Diwali holidays, but more or less the labor force is there to deliver what we are presuming for Q3 and what was your next question?

Parikshit Kandpal: Sir for this sizable order book like Rs. 4700 Crores what could be the capex commitment.

Manoj Tulsian: So capex this year we would be touching around Rs. 100 Crores and we feel that next year also we need to invest anything between Rs. 80 and Rs. 100 Crores.

Parikshit Kandpal: And how much of this will be outsourced to this execution what was the…?

Manoj Tulsian: No, not much of this will be outsourced. We would be doing this in-house only.

Parikshit Kandpal: And Sir lastly what is the revenue share of infrastructure in this quarter in the JMC numbers?

Manoj Tulsian: Right now it is only around 23-24%, but this will go significantly up in H2.

Parikshit Kandpal: What could this share go up and will it match the 37% or 40% of the share in the order book by H2 or…?

Manoj Tulsian: By the year end, we are presuming this 23% number to go up to around 35% for the full year.

Parikshit Kandpal: For full H1 it will be like 20%?

Manoj Tulsian: For full H1 also, yes it is around same 23%, 24%.

Parikshit Kandpal: Okay Sir that is all from my side thank you and all the best.

Moderator: Thank you. We would take the next question from the line of Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Sir this is question on JMC debt, the debt has come down Q-o-Q or what is the reason for this what kind of debt levels to expect by year end and within this short-term borrowings have come off significantly. Is there any change in the working capital cycle for us now on a sustainable basis?

Manoj Tulsian: Devang in Q1 only when the debt had gone up we had said that there were certain payments which we had not been able to receive in June and we were pretty confident that these numbers will come down by the time we see Q2 which has happened but the type of growth what we are envisaging in Q4, I think the debt will go back to a maximum level of around Rs. 750 odd Crores so which will be same as maybe the Q1 levels and in terms of short-term and long-term, the short-term has come down because we raised some money in the month of August through NCD around Rs. 150 odd Crores and right now since the working capital is in place and the borrowing side is well in the control, we have actually reduced our short-term exposure.

Devang Patel: On my working capital cycle, what would it be currently?

Manoj Tulsian: We are similar to what we were at the end of Q1 around three or four days has been reduced.

Devang Patel: Sir, I see a capital work in progress of 23 Crores what would it pertain to?

Manoj Tulsian: See this is mainly some structural work which is happening some advances which we have given for some of the launching girders and also some labor colonies which are under construction for our new side, those are the things which is under CWIP.

Devang Patel: Thanks Sir. That is all from my side. Thank you.

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

Prem Khurana: My questions are with respect to JMC so first one was on the irrigation projects where we have an MP when do we expect these two kind of start contributing and second thing was I mean if you could share your thoughts on how would it impact our working capital cycle once these will be start contributing because these happen to be pretty big in terms of size in scale?

Manoj Tulsian: I mentioned at the beginning that we have still not factored any turnover from this project in the coming year so if that happens then that takes care of any other misses which might happen in H2 and so most of it will come in next year and in terms of working capital the payment cycle right now what we have seen with current NVDA is very good and we have also secured advance against material supply and all those. So we do not think that it will affect working capital on a big way. At the same time we are also just to be on the slightly on the conservative side, we also trying to see if we can look at some separate funding for the project not required but yes we are still working on those aspect also.

Prem Khurana: And just one more when do our BOT projects come up for our major maintenance and Rs. 3 Crores odd that you have spend during the quarter or rather during H1 does it pertain to major maintenance or is it something else?

Manoj Tulsian: No anything on major maintenance will only go as revenue expenditure. These are incremental improvements which happens at the toll plaza or change of software or change of equipments and all those things.

Prem Khurana: Sure and when do these projects come up for major maintenance and how much could that amount be because essentially which is what kind of increase your mismatch again because essentially you would have to fund it from your pocket or I mean you would have to go for bank funding right?

Manoj Tulsian: No next two years I do not think that any of the project is coming from major maintenance. So in any case yes you are right see from the PBT perspective we have already been providing this on a year-to-year basis. So it does not affects my PBT whenever we spend this money, but in terms of cash flow yes there will be some impact but as far as my memory goes I do not see that there is any major maintenance in the next two years possibly it only starts after two years.

Prem Khurana: Also if you could share your thoughts on inflows now I mean we are worried on Rs. 40 odd billion the guidance was 50/55 and we still have five months to go so is there a chance wherein we would be able to kind of do better than what we have been guiding for and what is how does the pipeline look like as of now?

Manoj Tulsian: You see the pipeline actually it is on the pipeline only we mentioned that we would be able to hit anything around Rs.5500 crores right. There is one large order which I keep coming back and mentioning in that if that works out then that will be additional over and above this Rs.5500 croes, but that is something which is hanging around for last almost five quarters. So we have not factored that but leaving that aside I think Rs.5500 crores number is something because look again since we have got good amount of order book on the infrastructure, we have also slightly slowed down and changed our strategy also in terms of looking at even better quality so if at our price at our margin better margins if we are able to hit something then it is fine but otherwise we feel that Rs.5500 crores is the number because in the H1 nothing significant has come from the building side and there has been discussions with many of the developers they are going to launch a few projects which they have delayed in H1 and now there are good probabilities that those orders will come in H2. So majority of my orders in H2 would be from the building side or industrial projects. One of this L1 is on infrastructure but most of it will be from building and industrial segment.

Prem Khurana: Sure Sir thank you.

Moderator: Thank you. Next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Sir my question is on substation where we were trying to move to higher KV GIS rating trying to get PQ and all. So any update on that?

Manish Mohnot: So Siddharth on a substation if I look at my domestic and international business today our pending order book is more than Rs. 1000 odd Crores more in the range of Rs. 1200 to Rs. 1300 Crores and we today have orders for 130 KV to 220 KV and 400 KV also AI and GIS so as far as PQ is concerned up to 400 KV we have majority of the PQ as far as 765 KV is concerned we still do not have the PQ by ourselves but it is just a matter of maybe 12 to 18 months further and we should be there but we can bid with other partners for 765 KV also. Besides 765 KV today we have majority of the PQ is on substation at a KPTL level.

Siddharth Mohta: And Sir in terms of raw material if you can just throw steel prices, aluminum and zinc, we do understand that some of them are under hedge, but still I think it is generally it has not been covered so if you can help us on that?

Manish Mohnot: Sure, if you look at our order book today so that we have around 55% to 60% which is fixed in nature and around 40% which is variable in nature. So on order books which we have fixed we definitely have a risk on steel when steel is going up but the way it happened in the last six odd months. To a great extent we are protected by the contingencies which we have bid in for price increase at a tender level but otherwise at times at least on a lot of international projects, we are sometimes exposed to that. But on a totality basis if you look at that increase, it does not have a big dent in our margins maybe 10 basis points here or there.

Siddharth Mohta: And Sir in terms of working capital in the last 15 to 18 months we have taken lot of initiative, so in FY2020 is there any scope for further reduction?

Manish Mohnot: If you look at our net working capital days we are in the range of 90 odd days. I personally believe in the industry where we are with the kind of payment terms which client has with the kind of retention with the kind of milestone spills and all of that anywhere in the range of 80 to 90 should be a good target. So I do not see a huge reduction coming as far as networking capital days is concerned.

Siddharth Mohta: And Sir my last question is on Shubham. Sir generally H2 is quite better than H1 by 20%, 30% so and in the initial remark you have mentioned that the performance of Shubham, it will be in H1 so any specific reason for that?

Manish Mohnot: So what I said was it would be the similar it is not better than H1 so definitely H2 typically is much better than H1 and we expect that H2 you will see much better results coming in, but given that the overall number is just a Rs. 2 Crore PBT it is obviously would have not a big impact on consol but Shubham per se should be doing much better in H2 as compared to H1.

Sidharth Mohta: Thank you Sir and best wishes.

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

Aditya Mongia: The focus from my side was more on the slide in presentation which focuses on the consolidated results. So it is quite heartening to see that PAT margins actually have improved significantly in the first half to 4.5% I wanted to get a sense from you whether this number of 4.5% PAT margin can further improve from here on and so what will be the drivers for that thing to happen?

Manish Mohnot: We definitely believe that this number should further improve primarily driven by good performance coming in from all the three companies in terms of growth and profitability. So if you see what have been the biggest drivers of change here is the increase profitability for JMC and Shubham much improved revenue to numbers on our road BOT projects so and KPTLs own performance so our personal view is that this should be going up to levels of 5.5, 6 over the next 18 odd months.

Aditya Mongia: Sir second question was more to do with this improvement which is happening now our checks with the other giant in this state fraternity also suggest that essentially in terms of government projects there is some support being seen in terms of clearances write-off way and even payment so that matter which is being to a good execution is there a specific reason that you are seeing behind this growth in execution and whether do you think it can sustain in terms of the support from government entities towards the execution is the question which I had?

Manish Mohnot: I think we completely agree to that statement that the environment in terms of execution is improving significantly whether it is on forest ROW clearance and all of that so there is no doubt about it that on execution the challenges at a ground level are much different and much lower as what it used to be in the past. As far as our growth is concerned on the transmission domestic, we are not seeing opportunities as much coming up because of the entire slowdown in the thermal power generation side. We all know the reasons for it over the last 18 odd months whatever is happening. So since there is no demand in the same proposition as it was in the past, we are seeing some slowdown there so we are not seeing there will be no projects, we are seeing some slowdown there and that is impacting the growth on T&D domestic but on oil & gas and railways, our execution is on budgeted we will do what we had target at the beginning of the year if not better than that.

Aditya Mongia: Just to clarify should we be assuming a higher pace of execution for domestic projects going forward considering what you are thinking right now?

Manish Mohnot: So we still believe that what we have visible order book we should be looking at the same 15% to 20% growth getting into next year, we might have different projections of growth but it would be too early for me to comment onto the next year's projections today.

Aditya Mongia: Thank you for response to both of my questions.

Moderator: Thank you. Next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: Congratulations for good set of numbers. My two questions pertain to KPTL, first since you mentioned that there has been a vendor base being developed in railway segment, is that a reason why we have not seen a large size railway ordering of more than Rs. 500 Crores. In last six months, we have not seen any kind of order being there?

Manish Mohnot: No I am not sure what data point you are looking at, but we have seen some very large orders coming out on railways. We ourselves have got a lot of orders more in the range of Rs. 300, 400, 500, 600 Crores earlier last year also we saw some big orders in railways coming on DFCC. So I think the per se order book size in railways is increasing significantly and we are seeing that traction visible including traction in our order book. If you look at our order book first six months more than 40% is come from railways and average order book is more than Rs. 300 Crores so that is visible and it is only improving further.

Harshit Kapadia: And my next question is on the T&D segment since you have highlighted that there has been a slowdown in the T&D inflows but state is what you are concentrating on. So can you name which new states you are entering or any state particular where you are seeing good traction in terms of ordering picking up?

Manish Mohnot: We continue to focus on a seven, eight states we are seeing a lot of traction including states like

Karnataka, Tamil Nadu, UP, Bihar, West Bengal all of that. So it is primarily more in the Southern and Eastern and the North Eastern states also. So there are some seven, eight states including some good opportunities in North East which we are focused on.

Harshit Kapadia: Thank you Sir and all the best.

Moderator: Thank you. Next question is from the line of Debashish Mazumdar from Edelweiss. Please go ahead.

Debashish Mazumdar: My questions pertains to JMC, just wanted to understand that there was a large order of road from international that was in L1 has it converted into the order book or it is still at L1 level?

Manoj Tulsian: No, so this is what I just mentioned that we have now removed that from the L1 and even this Rs.5500 crores what we are talking about is not considering the same. So if that converts into orders then possibly that will be a incremental number over Rs.5500 Crores for the year. We still have some chances that is why I continue to be at least mentioned about it but it is being a long time so we thought it is better to remove it from the L1.

Debashish Mazumdar: One last question is there any pressure on interest cost that you are seeing?

Manoj Tulsian: Not much, one or two banks do have come back in the last seven days and but it is more like request that can we consider the request but we have been talking to a few of the NBFCs also to understand the market scenario. They are saying that things will improve in three months' time. So I do not see much concern on that side and a slight increase on that side is also not going to affect the performance in a big way.

Debashish Mazumdar: Thank you very much for having me.

Moderator: Thank you. Next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: This question is for Manish. KPTL railways in pipeline has become almost more than 40% of the order book whereas few years back T&D dominated so if we were to think of this from a two- to three-year perspective, do you think T&D will again start to come back in terms of again being 70%, 75% of the order book or this trend is here to stay?

Manish Mohnot: So at least from a two year perspective if you ask me I think 35:65, or 40:60 looks like the trend which will continue given the bullishness in the oil & gas as well as railways sector from a couple of year perspective but at the same time as I had indicated earlier that our L1 position majority is in transmission. So as far as order book is concerned by the end of Q3, the mix could be slightly different but on totality I think the 60:40 or 65:35 is there for at least the next couple of years.

Kunal Sheth: And this will largely be driven by incremental opportunity that you keep seeing in a domestic market as well or because you will also start taking this business is international and that will also continue to drive growth?

Manish Mohnot: It will be combination of both obviously domestic would drive the growth much faster in the next 6 to 12 months because that already opportunities we are already bidding for tenders, we are well established we are delivering all of that. International will take its own time and that portion of growth should come getting into the next year.

Kunal Sheth: Thank you and best of luck for the future.

Moderator: Thank you. Next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir this is for JMC project. Sir you mentioned about the refinancing of two BOT assets. So in case if it does not happen that what kind of project... So I was asking what kind of this loss funding support will required for JMC going into FY2020 in case if these two refinancing does not happen.

Manoj Tulsian: Most likely it will happen but in case it does not happen I think next year this number will slightly go up only. So the Rs. 60 Crores repayment would be somewhere around Rs. 80 or Rs. 85 Crores for next year, but we are very confident because things had reached to that level but just because of all these things which happened IL&FS and other things, thy just put it on hold that they have other concerns which they said let us address these concerns and then we sign off on this.

Parikshit Kandpal: And Sir last year FY2018 we had around Rs. 90 or Rs. 95 Crores of exposure from NBFCs in the debt so what could be the exposure now?

Manoj Tulsian: Some repayments have happened during the year so that should have come down with whatever progressive repayment was there. So if it was I just do not remember the exact number but if it was around 95 it would have reduced in H1 by another Rs. 7 or Rs. 8 Crores.

Parikshit Kandpal: And Sir lastly this repayment which you do for this BOT assets so how do you do it, its like finance through what like loans and advances or you take a debt and…?

Manoj Tulsian: No if you really see the cash accruals in the business is enough right now to take care of the same. Incrementally we have also borrowed like we have taken NCDs also in the month of August so which has a free use so if really needed, we can use funds out of that also.

Parikshit Kandpal: Okay. Thank you that is all from me.

Moderator: Thank you. Next question is from the line of Meet Jain from Prithvi Finmart. Please go ahead.

Meet Jain: I have two questions first is regarding our order book, currently order book is around Rs. 14000 Crores so I wanted to know how much of that portion is towards the North Eastern region's EPC?

Manish Mohnot: Out of the Rs. 14000 Crores our North Eastern order book would be in the range of I would say Rs. 700 to Rs. 800 Crores.

Meet Jain: So it is in to both power and railway as well?

Manish Mohnot: It is primarily in to power.

Meet Jain: Another question is that we have a capacity of around 180000 metric tonnes of tower manufacturing and we are into EPC business want to understand means how much of the utilization for our tower manufacturing and for EPC means if our tower utilization is higher first I want to know the pricing percentage.

Manish Mohnot: For past two to three years our tower factory has been running at 100% levels and this year also we expected to be more in the range of 100%. Last couple of years we had also outsourced around 10000, 15000 tonnes from outside I do not see that happening in this year and next year as of today our tower factory looks we have visibility that then next 18 months our factory would be fully utilized.

Meet Jain: So we are not expecting to outsource this for next year or this year as well?

Manish Mohnot: As of today looks difficult.

Meet Jain: Okay. That is all from my side. Thank you sir.

Moderator: Thank you. Well ladies and gentlemen that seems to be the last question for today. I would now like to hand the conference over to Ms. Bhoomika Nair for her closing comments.

Bhoomika Nair: I would just like to thank everyone for being on the call and particularly the management for giving us an opportunity and answering all the questions. Thank you very much and wish you all the very best.

Manish Mohnot: Thank you Bhoomika. Thank you everyone.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IDFC Securities, we conclude today's conference. Thank you all for joining us, you may now disconnect you lines now.