



Kalpataru Power Transmission Ltd. and JMC Projects (India) Ltd. Q2 FY23 Earnings Call

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CORPORATE PARTICIPANTS:

Mr. Manish Mohnot

Managing Director and CEO

Mr. S.K. Tripathi

Managing Director and CEO of the JMC Projects

Mr. Amit Uplenchwar

Director, Group Strategy and Subsidiary Operations

Mr. Ram Patodia

President, finance and CFO

Mr. Vishesh Pachnanda

VP and Head Investor Relations

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Moderator

Good morning, ladies and gentlemen. I'm Pelsia moderator of Kalpataru Power Transmission, and JMC projects, India Q2 FY23 Earnings Conference Call hosted by DAM Capital Advisors limited. As a reminder, all participants will be in 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 * and then 0 on your touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Ms. Bhoomika Nair from DAM Capital. Thank you. And over to you ma'am.

Bhoomika Nair

Thank you. And good morning to everyone on the call is and also the management Q2 FY23 Earnings Call of Kalpataru Power Transmission limited JMC Project. We have Mr. Vishesh Pachnanda, VP and Head Investor Relations - Kalpataru Group. I'll hand over the call to him to introduce the management and post which will open up the floor or opening the mark for Q&A, over to you Vishesh.

Vishesh Pachnanda

Thanks, Bhoomika. Thank you for hosting the call today for us. A very good morning to all the participants. This is Vishesh Pachnanda, I am pleased to welcome you to Kalpataru Power Transmission Limited and JMC Projects (India) Limited Earnings Call for Q2 FY23. We have with us today the management team represented by Mr. Manish Mohnot, Managing Director and CEO - KPTL, Mr. S.K. Tripathi, Managing Director and CEO - JMC Projects, Mr. Amit Uplenchwar, Director, Group Strategy and Subsidiary Operations and Mr. Ram Patodia, President, finance and CFO. We will start with a few minutes of opening remarks by Mr. Manish, and then we can open the floor for Q&A. With that, and without any further delay over to you Manish Mohnot, thank you.

Manish Mohnot

Thank you. Good morning and a warm welcome to all of you for Earnings Call of Kalpataru Power Transmission and JMC Projects for the quarter ended September 22.

First, I will put forward a quick update on our performance post which I will update you on the individual business and key strategic matters. We reported consol revenue growth of 7% in Q2 and 11% in H1 driven by strong execution and healthy order book in the B&F, water and international business. Our consolidated EBITDA margin improved by 70 basis points to 9.2% in

Q2 and has remained flat at around 9% in H1. Improvement in EBITDA margin is largely led by higher execution and a better business mix in the Civil business at JMC.

Our EBITDA margin at KPTL standalone continues to remain under pressure given higher commodity and logistic costs, volatility in currency, lower revenue and delay in project closures. The softening commodity price and the declining logistic costs are now very much visible and with the new orders that are quoted at better price levels, we expect the margin profile to improve.

Consolidated PBT before exceptional items improved by 17% in Q2 to Rs. 150 crores and 13% in H1 to Rs.289 crores. Exceptional items in Q2 and H1 pertains to Shree Shubham logistic on account of sale of cold storages, which had minimal value. Our reported PAT improved by 18% to Rs. 98 crores in Q2 and 16% to Rs.186 crores in H1 FY23.

Our consolidated net debt stands at Rs.2,905 crores. Our net debt in core EPC business excluding the road BOOT assets and Shree Shubham logistic stands at around Rs.2,046 crores. Our net working capital days in core stands at around 140 days as of 30 September 22, compared to around 121 days in 31 March 22. The increase in debt levels can be attributed to higher working capital requirements in JMC to commensurate with the business growth, lower collections in domestic T&D and Oil and Gas business and postponement in the closure of old projects. We have witnessed improvement in collections in the month of October 2022, which has led to a decline in net debt by around Rs. 150 crores in October 2022.

We continue to witness a strong momentum in order booking and business outlook has meaningfully improved over the past few months. In fact, it is significantly better than our expectations at the beginning of the year, which has led us to rethink on our capex plans for the year. As such, we have now accelerated our growth plans and capacity building in the B&F and international civil business. They should benefit us in gaining strategic advantage in key markets and businesses going forward. We expect working capital to normalize by the end of the financial year.

Moreover, our focused efforts to bring further efficiency in working capital, speedy project closures and proceeds from the sale of Indore asset will help us further in our deleveraging journey. We are targeting net working capital days in a range of 110 to 220 days for EPC business by the end of the year. We are witnessing a strong momentum in order booking as we have already secured orders of rupees Rs.14,388 crores at the consol level. Additionally, we have an L1 position of approximately Rs.6,000 crores. Our consol order book is at an all-time high of Rs.38,550 crores as on 30th September 2022 with visibility of more than Rs.47,000 crores as of today including L1.

Now coming to individual businesses.

In the T&D business, business remains impacted largely due to lower opening order book. We continue to strategically scale up our T&D business with notable order wins in key markets. We have secured orders including L1 position of over Rs.8,300 crores as of date. This provides us with good visibility for growth going forward as execution of new orders will start in Q4 of this financial year. Our Sweden subsidiary, LMG has reported revenue of Rs.256 crore in Q2 and to be Rs.522 crores for H1 with an order book of Rs.950 crores at the end of September 22. EBITDA margins are in the range of 7 to 8% at LMG. Our Brazil subsidiary, Fasttel has revenue of Rs.98 crores in Q2, and Rs.221 crores in H1 with an order book of around Rs.1,036 crores at the end of September 22. There is a marginal loss at EBITDA level.

Our visibility in the T&D business remains robust in domestic and international markets given the push for renewables and the requirements for new transmission lines. We believe, we are at a sweet spot and one of the key beneficiaries of the global energy transition which is underway.

In the B&F business, we have achieved revenue growth of 24% in Q2 on the back of robust execution and a healthy order book. We continue to diversify our client base and have added new clients in the commercial residential building segments and forayed into civil works for data centers. Our YTD order intake is Rs.1,968 crores and the order book stand at Rs.8,687 crores.

There is an all-around pick up in the real estate business including Commercial, Residential which augurs very-well for our B&F order book and outlook. .

Our water business recorded strong growth of 53% led by robust execution. We have secured orders of Rs.4,060 crores till date in FY23 and additionally we have a sizable L1 position in the water business. Our orderbook in the water business is at a record level of Rs.8,300 crores. Over the past couple of years, we made focused efforts on capability building and have emerged among the leading players in the water business in India. Given the government's thrust on tap water supply and JJM scheme with huge capital allocation, the water business continues to hold enormous growth potential for us.

Our Railway business declined marginally given impact of monsoon on select projects. We have forayed in the high growth metro electrification space thereby expanding our portfolio and clientele. Our order visibility has significantly improved in the railway across both conventional and emerging areas like Metro, RTS and High-Speed Rail.

In the oil and gas business, we have secured orders up around Rs.1,200 crores and have a decent at L1 position. The business reported growth of over 40% in Q2 FY23. We continue to focus on India and international market to drive sustainable growth in the oil and gas business.

In urban infra business, we continue to focus on metro rail, elevated structures, public spaces, airports etc. We have secured elevated viaduct metro rail and integrated export project during the year. We are confident to significantly scale up and improve our market position in urban infra business in India and international market going forward.

In case of a road Boot projects, we have witnessed good improvement in traffic across all the three road assets. Per day revenue increased from Rs.44.1 lakh per in Q2 last year to Rs.49.7 lakhs per day in Q2 this year. We have infused an additional amount of 42 crores in first half of FY23 largely to fund the repayment. For WEPL, we have received consent from lender and expect the restructuring to complete by March 23. With respect to VEPL we are taking all appropriate steps to improve viability and ensure reduction in further capital infusion.

Sale in Indore asset remains on a good growth trajectory, we expect to complete sales of the balance 35-40% of the inventory over the next 10-12 months. We received cash flows in the range of around Rs.50 crores till date in the current financial year and we expect further Rs.100 crores in the next six months.

As far as update on the KPTL and JMC merger is concerned, we have received no observation letter from SEBI and stock exchanges. We've also received shareholder approval and we expect order from NCLT anytime soon. We plan to complete the merger later in Q4 23.

On a concluding note, I would like to highlight that business visibility remains strong across all our businesses with a tender pipeline in excess of Rs.1,000 billion over the next few quarters. Our current order book and the diverse business mix make gives us confidence to deliver consol revenue growth in excess of 15% with a stable margin profile for the FY23.

We continue to judiciously monitor capital employed and are working very hard to reduce the net debt by improving working capital cycle and achieving plan targets with respect to non-core business and assets.

With this, I will request the moderator to open the lines for Q&A. Thank you.

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad.

We will wait for a moment while the question queue assembles. The first question comes from Parikshit Kandpal from HDFC securities, please go ahead.

Parikshit Kandpal

Good morning, Manish ji, congratulations on a decent quarter. My first question is, you have given a very robust outline in your presentation, but still, we remain conservative on our growth guidance 15% plus so, if you can just give some more granularity on how much growth is expected in KPTL and how much in JMC. And potentially what could be the upside risk to this?

Manish Mohnot

Good morning, Parikshit. At JMC, we clearly see growth in the range of 20 to 25%, if not more for the entire year. At KPTL, at the beginning of the year it looked like we were confident of a growth of 10 to 15%, but it now looks like more to be in the range of 7.5 to 10%. We have a very good visible order book, but a lot of orders get converted to revenue only in Q4 and after that, because of design related issues and environment clearance and all of that. So, on a consol basis, while we are confident of 15% growth. We are not revising the target as of now. We will be revisiting this numbers at the end of Q3.

Parikshit Kandpal

So, is it right to look at that for the next year KPTL growth is much higher given a strong order backlog and the wins, which have happened for us. So, what kind of growth can continue on for FY24 about JMC and KPTL.

Manish Mohnot

Parikshit, clearly from a perspective of next year and the year after that I'm sure about visibility, you are aware of a target of 25,000 crores by 2025. So, next two years, we definitely look at growing at closer to 20%, if not more, given the order book visibility of closer to Rs.47,000 crores today I don't see that to be a challenge at all.

Parikshit Kandpal

Okay. KPTL will move more towards 20% and JMC could be like 30%?

Manish Mohnot

I would stick to a console number now more than getting into specifics out of business console number even next year, while we stand today looks like easily being in the range of 15 to 20% more towards 20% target.

Parikshit Kandpal

And both on the margin side, how do you see this year FY23 for both the companies and for the FY24, how do you see the EBITDA margins?

Manish Mohnot

So as far as margins for FY23 is concerned, we definitely see improvement in margins happening across the board. A lot of historical issues whether it was on commodity or logistic cost or the volatility in forex, all of them look like being behind, so where we stand today we definitely look like by Q4 we should be targeting consol EBITDA margins to be more much higher levels of 9%. On an annualized basis, we are targeted EBITDA margins to be in the range of 9 to 9.5% on a consol basis and we believe we will be there. As far as next year is concerned, we definitely expect margins to improve, but I would not like to quantify that today you will have to wait for some more time before we give you exact margin profile getting into next year.

Parikshit Kandpal

Okay, one more question coming back to the, like so this has been the tricky question and the other parts of businesses have recovered quite well, but pledge over hang is still continues and will not see in any major movement. We have been talking about even the last quarter we mentioned that there could be some reduction going the post Q2, so recently we have heard from the media that the large sale of real estate land by the group parent and besides that the sector is also doing quite well. So, based on the cash flow which the group may have at the current levels, how do you see, the depledging of shares from here on till the year end, from the current, approximately 50% of promoter share.

Manish Mohnot

So, Parikshit we had a discussion with the senior management of Kalpataru Limited on the aspect. We have been informed that cash flows have significantly improved at the Kalpataru Limited on the real estate level. We have also seen some movement and divestment of land assets, which we all read in the newspapers a few weeks ago. We've been informed by them that pledge

reduction has started already, and you'll see some movements happening as early as this week and over a period of time gradually it will reduce. We do not have any specific targets of Q3, Q4, but we've been informed that gradually pledge reduction will happen and because the cash flow has improved significantly across all projects.

Parikshit Kandpal

Any timelines, we're on a longer-term pathway towards zero pledge just in exponential FY24 and so, any sense over there or traditionally it will not keep reducing. If you can get some more color on that.

Manish Mohnot

So, Parikshit, we do not have a defined timeline for this, except the fact that pledge will gradually only reduce and given us cash flows, which have improved significantly, it's going to be one way of reduction only.

Parikshit Kandpal

So, we are not going to be any normal activity there in terms of ups and downs, it's only going to be directionally going down, right?

Manish Mohnot

Exactly.

Parikshit Kandpal

Okay. And just the last question for Road SPVs this quarter, this half we have again done a loss funding about 42 crores, which you have highlighted, so which is a number, which looks to be on a higher side, so once this restructuring of the WEPL happens by this year end and you said the measures are being taken in VEPL, so how do you see the loss funding for the next year, so you can break it up both for the shortfall of loan and for the major maintenance for FY24 and FY23 both.

S.K. Tripathi

Right. So, good morning, Parikshit. So, two things one there is a uptick in the revenue in the projects that we have just said that there is almost growth of 20% in revenue that is one thing, but at the same time the maintenance of these assets as these assets are almost 7.5-year-old and they will require some money in terms of the part of the long term maintenance, which are during the project. Now, those long-term maintenance we have decided strategically to spread over a couple of years rather than doing it in one shot.

So, seeing all this in the next half, we will may have to infuse another 25-30 crores including the maintenance and shortfall of the loan. For this year, the total number will be in the range of about Rs.70 to 80 crores. Next year, we can see with the same revenue growth, including the maintenance, we will be in the range of about Rs.50 to 60 crores without restructuring. If the restructuring happens, this number will further come down by Rs.25 to 30 crores.

Parikshit Kandpal

Okay, got it. And lastly, I'm sorry, on the Indore Real Estate, how much is the total residential balance to be sold, and what was the residential collection, including on this sold value and balance value?

Manish Mohnot

So, we have approximately 40% of inventory yet to be sold and if you look at, we've sold around 60% of the inventory, including residential and commercial both. As of today, if you look at the current value of investment post impairment is in the range of Rs.275 to 280 crores and we expect to collect all of that in the next 12 to 18 months, so around 40% of the inventory is yet to be sold.

Parikshit Kandpal

It is the 40% value or it's still total 100%?

Manish Mohnot

It's a 40% value. Post impairment.

Parikshit Kandpal

Rs.280 crores have to be collected over 12-18 months and is there any cost component to your cash flow?

Manish Mohnot

So, there is a cost component to it because there's half a building, which yet needs to be done a lot of finishing work needs to be done, so there's approximately 15 to 20% which will be the cost component.

Parikshit Kandpal

Okay, got it, sir. Thank you.

Moderator

Thank you. Next question comes from Bharat Sheth from Quest Investment Advisors Pvt Ltd, please go ahead.

Bharat Sheth

Hi, Manish ji. Good morning and congratulations to the whole team of Kalpataru and JMC, very good performance on a challenging time. Please the one question on the PBT margin side, because we generally give the guidance on the PBT. So, in first half, we have achieved around 3.8% and full year we are guiding for 4.5 to 5%, so which implies that in second half, we expect to report around 5% to 5.75% kind of PBT margin. So, which are the lever if you can explain first part on that and second question, I'll come back later on.

Manish Mohnot

Good morning, Bharat bhai. Bharat bhai yes, we have guided for a PBT margin in the range of 4.5% plus and we believe we should be achieving that we should be very close to that number by the end of the year. A significant uptick in margin comes from the following aspects. One, typically the revenue for the last six months, if you look at any EPC contracting business, including ours, is much higher than what we do in the first six months, it's typically been a ratio of 40:60. So that

is the first leverage because you know on an overall allocation, of course, all of that makes a difference.

Second, typically collections in the next last six months is always higher than if historically you'll always see the debt goes up in the first two quarters and reduces in Q3, Q4 and that will also help us leverage on in terms of interest costs and a few other parameters. And third, and the most important, you know a lot of our new orders which we've secured in the last 12 to 18 months, do not have any of those legacies, of course whether it was commodity or COVID, or logistics or any of that and that will also help us improve our margin. Is it going to be an easy task? No. But as a team were committed to being in the range of 4.5% plus PBT margin for the entire year.

Bharat Sheth

Is that fair understanding that then again in FY24, there is a further scope of improving this PBT margin by around 50-100 basis point.

Manish Mohnot

Bharat bhai, we definitely believe margins would improve going forward in the next two years, but I'm not going to give a number as of today because we still are not done a detailed business plan from the next year, but we definitely believe there will be a margin improvement getting into next year.

Bharat Sheth

Okay, last question for you with your permission. If you can tell from 2-3 years perspective, our which business is likely we are seeing more traction and how the ordering flow domestic as well as international both separately if you can give some color, which will grow much faster and where we are seeing further scope?

Manish Mohnot

Bharat bhai, we believe that out of focus six businesses or I could even say seven businesses, there are three which would grow at 20% plus, which includes transmission and civil, the water business, given the trust by the government and capital location, and the buildings and factories business, so this three business we believe can easily grow in the range of 15 to 20%, if not more, and we'll continue to be profitable in the range of 9 to 10% EBITDA is not higher.

On the other businesses, our oil and gas business, we're focusing a lot more international and depending upon, what wins we get there, that business could be either in that single digit range or a very high double-digit range, because we have qualified in 6-7 countries, and we bid for a lot of projects, but the competitive pressure is very high, so we're not going to get into that business only for revenue, but we will do that business as we believe that has margin, which is sustainable.

On the T&D domestic business, a lot of projects that coming up, but a lot of them have got deferred also, now, when you look at last six months ago, we're speaking about Leh & Ladakh, six months ago, we're speaking about a lot of projects in northeast, a lot of them have got deferred. So, while the opportunities exist, and they continue to improve, given the first by the government on one connectivity, and second, the new tenders also coming up. We believe that business will do well in the long run, but the next two years it will be a single digit growth.

On the railways business, we will continue to be selected because of the competitive pressure across all segments of the business on an average we're seeing 15 to 18 bidders on that business, so we will not like to be in that herd mentality of taking business only for top line.

Our focus on the infrastructure business is very, very high. We have won project in the last six months the Kanpur Metro and airport project at Maldives and that's one business, which we will build, but again selectively I will not do that business only for getting a top line kind of revenue but making sure that we are present in all the segments of urban infrastructure from a long-term perspective. With that mix, we believe growing at a 20% flat for the next two years will not be a challenge.

Bharat Sheth

Okay, I'll come back in a queue. Thank you very much. All the best.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. Next question comes from Vineet Anand from Emkay global, please go ahead.

Abhineet Anand

Yeah, thanks for the opportunity. Just wanted to delve a bit deeper on the working capital side, it's you see your debt levels right from Q1 till now it is up by more than Rs.300 crores. If you can just give details, which segments are you facing issues we have heard, some of the companies saying about railways? And why are these issues and how do you getting solved? Because you said that net working capital will normalize by March end. That's the first question.

Manish Mohnot

See on our working capital, are we at alarming level?, let me be very frank on responding we are not. Typically in our business, we always see the first six months working capital going up because a lot of clients and their budget number takes time to freeze, their ability to pay a lot of advances all start coming from Q3, Q4, okay, so yes, debt levels have gone up. But if I divide this into three segments, one, JMC, the growth has been so high, so debt levels have gone up by Rs.150 crores, which is very commensurate with the growth. At Kalpataru, through we had a few collections, which got delayed and which came in in October and that's where we declared that in October, our debt levels have come down, but further Rs.150 crores.

To us today, there isn't anything which is sticky in the sense of saying that this project is that project, yes, a few projects, we have some issues which are getting sorted out. And we believe in Q3, Q4 they'll get sorted out. We also have got some huge claims coming in from ECGC on one of our international projects that Afghanistan where the work was stalled.. So, on a totality if you ask me, is there a concern in terms of working capital or debt? No, it is not. It is a typical cycle where first two quarters it goes up and it stabilizes, again by Q3, Q4 and we pretty confident of that.

Abhineet Anand

So, what is the money that is stuck in Afghanistan for us?

Manish Mohnot

So, our total exposure to Afghanistan was closer to Rs.150 crores and we've got closer to Rs.120 crores from ECGC already on that claim, , so net exposure would be less than Rs.30 crores. Again, which we have some advances also today, as of today, our net exposure would be very minimal on Afghanistan.

Abhineet Anand

Okay, secondly, last year, I remember we got a large order from Chile, right? If you could just highlight, I think it was a large order, so also the engineering etc, started there or is it I mean, the first few steps of project started if you can, give a detail on that?

Manish Mohnot

Sure, on the project, in fact, entire aspect of engineering as well as environment clearances with the client needs to do and a few of the clearances are all on track. So, we believe that the project in terms of revenue delivery would start only by Q3 of next year. Till that time, we have to finish engineering and approvals, which are all on track. We now have a big team in Chile, which is working on the project and post that project, we have also won two more projects in Chile, which are smaller in nature, with the same client and with another client, and we could be pretty confident that this project is going to be a big advantage for us in entering into that entire market.

Abhineet Anand

Okay, so from KPTL perspective, what is the margin that we're expecting for FY23?

Manish Mohnot

I responded to this question earlier also asked as far as the next year is concerned, we will come back on margin. As per the current year is concerned, we are working hard to make sure that our EBITDA margins goes up from the current levels of 8.1% to 8.5 and 9%. We still will have some challenges in Q3 given that the historical order book needs to be executed and new order book revenue comes getting into Q4 we believe it should be in that EBITDA range of 9%.

Abhineet Anand

Thanks, sir. Those are my questions.

Manish Mohnot

Thank you.

Moderator

Thank you. Ladies and gentlemen, if we have any questions, please press * and 1 on your telephone keypad. Next question comes from Swarnim Maheshwari from Edelweiss Securities, please go ahead.

Swarnim Maheshwari

Thanks for the opportunity and congratulation and good set of numbers. First question is on the balance sheet, now I am looking at this H1 balance sheet, the consol balance sheet, then I can see the gross borrowings at about Rs.4,200 crores, where is the presentation highlights at about Rs.3,700 crores. So, what is these Rs.500 crores, there's a difference pertaining to?

Manish Mohnot

So, I just had to look at one of my colleagues, I'll be very frank on this, and I immediately got a response. Okay, so on the two transmission assets, which we have sold, we have already got the entire cash flow, we declared that earlier, the one which was sold to Adani and CLP, we've already got the entire cash flow, but the transfer of equity still happening because of the TSA. So why you see that number coming in loan, but which has already got a cash flow, which is already received. So, when they set off, there's no money to receive, it's only an accounting entry to be part as and when the equity gets transferred, so that that is a difference of around Rs.500 crores on the loan book.

Swarnim Maheshwari

So, fair enough, but then, I think shouldn't be net debt we had Rs.3,500 crores instead of Rs.2,900 crores that is reflected in the presentation, because we have already received the money.

Manish Mohnot

Yes, so that's what net debt of Rs.2,900, so net debt also reduces cash, right? So, that was two questions you asked. One, why is the gross different I've explained you. Next, for net debt will also reduce cash, so we have cash, which is visible on the balance sheet of around Rs.500 to 600 crores which has been reduced. And that's exactly what we've been following last reporting for the last whatever 5, 6, 7 or as many numbers of years. You can see the cash and cash equivalents. This clearly visible Rs.810 crores cash and cash equivalent on a console level is visible, we've also presented that.

Swarnim Maheshwari

Okay, maybe sir, I'll understand that later. So, my second thing is if you just look at from YoY bases from Q2, I mean, our net debt levels, taking Rs.2,900 crores, it is really not going anywhere. This is after the asset sale, and I believe in the last 12 months, we would have actually sold some of the inventories in Indore also. So, what is it the working capital pressure that is visible on this heightened numbers, because in Q1, we did actually report Rs.2,300 crores some net debt, so this is just the working capital pressure or something else also?

Manish Mohnot

No, I think it's only and only the working capital numbers, which is commensurate with the growth and at least sustainable business, one. Second, it's also delaying a lot of advances, which we plan to take after the increase in interest rates. So, you remember, we discussed this last year, I think that we when interest rates were so low, we are not taking too many client advances. Now we have decided to do that and that will help us further leverage at debt.

So, it's only an only working capital and it's a typical cycle. So, if you go back to the year before last five years, you'll see first two quarters it goes up and goes in Q3, Q4 there's only one working capital, there's nothing else beyond working capital interest. There are no investments or there's a small investment, yes, we acquired 15% stake in the balance stake of Promoter in Sweden, yes, that's what we have done. We've infused some equity or some advances to Brazil, but otherwise a significant portion if not the entire portion is only working capital.

Swarnim Maheshwari

So, what is our targeted net debt level by the end of this year?

Manish Mohnot

So, on a consol EPC business week, we still continue to be having a target of further reduction of Rs.300 to 400 crores from where we were at the beginning of the year. So, at the beginning of the year, we were at a net debt of KPTL and JMC have around Rs.1,500 crores. So, we are targeting to be below that definitely. We will revisit this based on our revised Capex plan. I had mentioned earlier that we are increasing our Capex plans from the year from Rs.350 crores on a console to Rs.500 crores. So, with the increase in Capex plans, there could be some small change in this, but on a net debt level KPTL and JMC we're targeting to be below Rs.1500 crores definitely by the year.

Swarnim Maheshwari

So, by this is Rs.1,500 crores by the year end?

Manish Mohnot

Yes, by the year end.

Swarnim Maheshwari:

Almost half from the current.

Manish Mohnot

No, it's not half Rs.2,300 to Rs.1,500 crores only Rs.800 crores half make it Rs.1,200 crores every rupee counts on this number.

Swarnim Maheshwari

For sure, I was actually looking at Rs.2,900 crores on net debt that is where I was coming for.

Manish Mohnot

Okay. We are already improvement in October itself has come down by around Rs.150 crores. So, I'm again correcting this so that we clear, what number I gave you was KPTL and JMC together as far as Shubham and Road BOOT assets continue, they will continue to be at those levels unless the restructuring happens.

Swarnim Maheshwari

Right. Got it, sir. Thank you so much and all the best.

Manish Mohnot

Thank you.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. Next question comes from Kunal Sheth from BnK Securities, please go ahead.

Kunal Sheth

Yeah. Hi, good morning, sir. Thank you for the opportunity. I just want to get your comments on the railway side, specifically how has been the attraction there? Because there is a lot of excitement around railways that we've been hearing. So, just wanted to hear your views. Is there a real traction happening in railways in terms of sub segments? In a related question here is that have we augmenting our capabilities in terms of number of segments that we cater in railways meaningfully over the last 12 months?

Manish Mohnot

So, let me first answer your second question. Over the last 12 months, we continuously focused on improving PQ and competency in this segment, whether it is a signaling, whether it is on metro electrification, whether it is a large civil projects. So as of today, I think we qualified for everything in the railways space, except maybe the high-speed corridor, which also along with JMC as a combined entity we will qualify. As far as opportunity is concerned, yes, the opportunity is very high on all four areas. One is the high-speed rail and related areas.

Second is expansion of two tracks to four that. Third is electrification and fourth is the signaling, and fifth if I have to add to is whether it is a metro, metro electrification, or combination of this project. So, from a traction perspective, yes, there's a lot of opportunities and it looks very attractive. The only challenge is the competitive pressure in some of the segments is extremely high. So smaller side projects of Rs.100 to 200 crores at that times we have seen 15 competitors bidding. On bigger size projects, yes, we still see 6-7 people bidding. So, while the opportunity is high, I'm not personally sure that whether this will be very attractive from a margin perspective, at least for the next two years.

Second, a lot of railway projects, the entire working capital cycle is very bad. So, everything is milestone-based payment, and you get a lot of payments after you've done 90% of your work. So, with that, also, it is very important for us as Kalpataru to be very conscious of saying that what is the order book we need to build? Because we just don't want to build an order book, which has a specially high on working capital. So, while opportunity looks good, we are not as bullish as on the international businesses, be in that B&F and water business, but we believe that from a long-term perspective, this space would be very meaningful both in India and International.

Kunal Sheth

Greater. Just easily possible to put a number to this opportunity size, and probably what would have been the same number, say, six months back or 12 months, back to get a sense of, quantum of opportunity.

Manish Mohnot

I think you'll have to just speak to my team to get the numbers. I don't know what last year, but I know while we speak today, we have more than Rs.10,000 crores of railway tenders to bid in the next four to five months. A lot of them on metro, a few on electrification and a lot of them on further expansion of two tracks to four tracks or one to two. After the previous year numbers are concerned it might help if you can just connect with my team and get a feel of the entire numbers.

Kunal Sheth

Sure, sir. Thank you so much for such a detailed answer.

Moderator

Thank you, ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Next question comes from Prem Khurana from Anand Rathi, please go ahead.

Prem Khurana

Thank you for taking my question. So, my question is related to JMC Projects. And so, I think we were targeting almost around Rs.10,000 to 11,000 crores rupees of orders and when I look away, we have received Rs.7,500 crores of firm order and L1 of other around Rs.1,700 so we are almost there. So, given the fact that we are very close to our target now so how does that change the way you approach any new order? Whatever you make, you're going to raise your margin expectations now we're happy with 9-10% odd which already targeted even otherwise?

S.K. Tripathi

Yeah, good morning, Prem as far as the order book itself and you are right, we are taking almost to the yearly target, but as we said in the beginning of the year also that we are not running after the order book. It is only when we get the selective opportunities we go and pick it up. So, the same trend will continue in the next half also. As far as the margin is concerned, we have said earlier also that our entire quest is there when we are looking at the order is to improve the

margins. So, given the look and feel what we have in the order book today, which we should move towards the improvement of the margins, at least for next one or two years.

Prem Khurana

And the second question was on the order backlog of conversion ratio, so when I look at each of the three segments that we give out in our presentation, water, B&F and infra, so when I specifically when I look at infra the conversion ratio seems to be a little slow, I think we're doing around Rs.100-121 crores on the same number on a quarterly basis on an order backlog of Rs.3,000 crore, which seems to be on a slower side and I'm going to compare that to either B&F or water. So, do we have any slow-moving orders and some of these orders the same you can have gained traction in terms of execution, which would explain this or no conversion ratio specifically.

S.K. Tripathi

So, that order book of Rs.3,000 odd crore, it also connotes about Rs.2,000 crore orders of international highways and they are long gestation projects. They're both the projects Ghana and Ethiopia they are four years gestation period projects. In fact, we have done just one year in those projects, which out of that six months remains the mobilization period and that is why you're seeing the low traction there and domestic anyway it is Rs.500-600 crore order book out of that a substantial portion is under the last phase where we are closing the projects and that is why on that, to on the infra side you see the low traction compared to the water and the BNF.

Prem Khurana

What will be the average execution cycle for each of these three segments and based on the kind of orders that you have in the Urban Infra segments I do explain, and this is essentially with some of these projects running in four years itself and how the number for the water and buildings and terms of everything.

S.K. Tripathi

So, we can send a send you across the details, but in general the water will be around three, B&F will be two and a half years because of our larger order book will be private, right? If you do the analysis of order book on the B&F, being private, they are the conversion cycle is faster. Water it could be in the range of two and a half to three years. And the infra as I said since the currently that order book is predominately in the international project where the project duration itself is four years, that is why it is looking three plus.

Prem Khurana

And any update on our asset sale efforts like KEPL sale, so any progress, I mean any new more.

S.K. Tripathi

We are not able to hear you clearly, we were not able to hear your question, clear, can you speak loudly?

Prem Khurana

Yeah, hang on, this time now, if we've made any progress on our assets, efforts, right, and we wanted to sell our road BOT asset, so any update that you would like to share with us?

S.K. Tripathi

So currently, we are not looking at the sale, because rather than we are focusing on the restructuring, there is an uptick in the revenue itself, so we'll wait, we have to open the sale option going forward. So currently, we are not looking at this stage.

Prem Khurana

And just one last, if I may, with your permission, I think so while you're opening, spoke about 20 to 25% kind of revenue growth for JMC in this year, but I mean if I will continue with the runtime that we have in Q2 almost Rs.1,800 crore rupees and get to have similar number in the next two quarters. I mean, this idea itself should get me to almost 30% growth. So are we being little conservative, or I mean you see some challenges, which is why I mean you're guiding on a lower side. I mean, generally H2 tends to be better than H1, right? I mean if I can do Rs.1,800 crores in a monsoon hit quarter, I mean I would be under the impression that Q3 and Q4 ideally should be better than Rs.1,800 odd crore rupees. So, how should I kind of connect these understand this thing the growth target they are giving.

S.K. Tripathi

So, while I agree with you, H2 number will be higher, but at the same time, yes, there is some amount of conservatism is applied, which is required for this kind of business where we are because we are working like water project, they are the State Governments, right and giving the situation that half the country is in the election mode, right. And that is why we are cautious with the number, how the thing goes on. And that is why we are a bit cautious with the numbers.

Manish Mohnot

And I'll just add to what you just said. While the visibility is good, and we don't have anything, which is sticky projects, but we will be very conscious of the working capital requirements. And historically we have seen around phases of, around sometimes around some phases of the political environment, you have projects, which gets delayed for a few months. And that's a time where we have to be very, very quick in reactive so that we don't get blocked on working capital. So yes, we could do better, but we will be happy to be cautious at this stage and then pick a final call maybe at the end of Q3 or by the year.

Prem Khurana

Thank you. That's it for my end and all the very best.

Manish Mohnot

Thank you

Moderator

Thank you. Next question comes from Arafat Saiyed from the Reliance Securities. Please go ahead.

Arafat Saiyed

Yeah. Hi, sir. Thanks for taking my question. How is order pipeline for T&D and Non T&D business and international?

Manish Mohnot

Arafat, good morning. I did extend this earlier, but I'll just repeat that, the pipeline looks very good on majority of the segments, whether it is water, whether it is transmission, whether it is B&F, whether it is oil and gas. But within those, the markets are very, very different international markets look much better than domestic markets on transmission. Oil and Gas again, both domestic and international goods. On water domestic, ordering looks much better than international.

So, on an average, we believe that on core business is growing at a high double digit will not be challenged for the next two years. And I just add to it today, visibility and order book is closer to two and a half years at a consol level. So, today we have a visibility of around Rs.47,000 crores and expected revenue at the year-end is closer to Rs.17,000 crores. So, with that number is like

2.7, 2.8 times so growth challenge looks minimal. The real challenge is to make sure that we focus on projects where we can one make reasonable return on capital employed.

Second, getting in to international, in existing segments where long term opportunity is high. So, we will be focusing a lot more also on international business for the civil business, you know today if you see the international portfolio, it has 90% transmission 10% Non T&D, and then one project in B&Fs, and a few projects in water. So, our aim is over the next three to five years try and make sure that internationally across all segments where we exist, whether it is water, whether it is railways, whether it is roads, whether it is oil and gas, whether B&F we continue to grow. So, opportunity looks good, growth will not be a challenge, we just need to focus on improving our margins and return on capital employed.

Arafat Saiyed

How will be the mix in T&D and Non T&D and International span out?

Manish Mohnot

On a consol basis, and I'm sure you would have looked at the analyst presentation, which we have seen and if you look at our consol business order book, which we had, you'll see that T&D as a whole is hardly at around 20% or 25% on a totality, if I include Linjemontage and Fasttel, so on a consol business, I think T&D is going to be a lot more than so if you look at the KPTL consol order book as of now you can see T&D is only 30%, water is 22%, rban Infra with railway 18%, oil and gas 6% and B&Fis 22%, so I believe on a console basis T&D will be in the range of 30 to 35% only.

Arafat Saiyed

Thank you, sir.

Moderator

Thank you. We have a follow up question from Bharat Sheth from Quest Investment Advisors Pvt Ltd, please go ahead.

Bharat Sheth

Thanks for the opportunity again, so when we are talking about this green energy opportunity where it is I mean, Europeans very aggressive on renewables and we have fair amount of

presence in Nordic region, and also if you can give color on power transmission, shipment to US market where we are seeing a big opportunity coming up as well as South America.

Manish Mohnot

Bharat bhai, yes, just to answer your first question, yes, green hydrogen and related opportunity looks like a big opportunity. We have a team working on it, but while we see through at least our internal believe, by the time it gets converted to reality, and there's some meaningful traction, it might still be 12-18 months, if not more than that. I'm not saying that we are not working on it, we have a team which is looking at it both on manufacturing as well as EPC opportunities, but there are so many options and solutions and visibility and liquidity and so many challenges are just saying, so, to us, it's a good opportunity, but maybe beyond 24-25 months. On the second aspect, as far as the US market is concerned, yes, that's a focus market from a long term, but while we say so we have had very minimal traction, well just supply towers to a few clients not been able to get into the EPC space there.

The markets are very different and very competitive and we're still seeing that market as far as US is concerned. On the Latin America, the entire South America, whether it is Brazil, whether it is Chile, whether it is Peru, whether it is Argentina, or neighboring countries, we see a lot of traction coming up, we are selective on projects, which we need to take, Brazil has not been a very good starter in the last 12 months, but we're pretty confident of turning it around by next year itself. Chile, we have done exceptionally well and today we are among the top three contractors in the country on transmission. A few more countries, we are looking at those opportunities, but yes, that's a big opportunity for us, so we believe over the next three to five years, at least on the transmission side, we might be among the top three players in the southern American market in totality.

Bharat Sheth

And we believe to remain strong in Middle East South Africa and Southeast Asia.

Manish Mohnot

So, we'll continue to be present there as long as we get reasonable returns, the challenges some of these markets is there's so much competitive pressure that at times, whatever numbers you bid for, become challenging by the end of the of the project, right? Because they're very different markets, yes, will continue to present, but our focus will be a lot more on newer markets and not the same markets where we are today.

Bharat Sheth

Okay. And last question on the working capital side, particularly on KPTL because of these in advance, I mean GST duty structure or GST set off amount, I mean, outstanding is Rs.312 crores, so how do we see, because the amount is kept on increasing, so that is also causing some kind of a working capital pressure?

Manish Mohnot

Yes, for sure, but that was a challenge, but it's improved significantly after the revision and the rates on railway projects, which happened just three, four months ago, earlier railway projects were at a lower GST, so we had a challenge there. So, we believe that this number should get down by the year end, as because now the difference and, majority of the projects is very minimal. Now railways again at 18% and water is also gone up in JMC, so we would not have much challenges. It's only the historical credit which we need to utilize, so you'll see reduction happening, but not significant in the current year.

Bharat Sheth

Okay. Thank you, all the best.

Manish Mohnot

Thank you, Bharat bhai.

Moderator

Thank you. We have a follow up question from Vineet Anand from Emkay global. Please go ahead.

Abhineet Anand

Yes, sir. One of the things that you know the KPTL and JMC Projects we had when talking about the synergy, right? So first, I wanted to understand the differential in the interest rate for KPTL and JMC today?

Manish Mohnot

Yeah, Abhineet, the differential interest rate is in the range of 200 to 300 basis points depending on the kind of borrowing it's much lower on NCDs. It's much higher on WCD and CC limits, but it's in the range of 200 to 300 basis points.

Abhineet Anand

And apart from this interest costs, once the merger happened everything will become KPTL rating, right? What are the other aspects that one should monitor to have more benefits that can grow in the next few years.

Manish Mohnot

So, we have articulated this earlier also there are three segments where we are focused on right. One is the savings and costs coming out of all our entire corporate and back-office operations on several area, but more than that is the opportunity of bidding for large projects using the civil, mechanical and electrical skill sets and one balance sheet, which will allow us to bid for larger projects, which could be a much bigger opportunity. So, if you look at the last nine months, you'll see majority of our wins are very high value projects. And if you compare it with any number for the last few years, you'll see a huge difference.

So, that's one ability which we are building, which is creating a team cutting across streams, and using a balance sheet to bid for it in terms of guarantees, in terms of ability to take risk, all of that. Third and again, a big opportunity, getting a lot of our businesses on the international foray. So, what we have done in successfully internationally in transmission, we replicated that very well in the last three years on rows in a few geographies. We believe that, with a focused approach, we can do that across all our segments. So, with this three is where, we believe that one growth on revenue as well as margin should be possible. It's a journey which will take its time, but clearly it's a journey, which will be very, very fruitful in the long run.

Abhineet Anand

Thanks, sir. Those are very informative.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. Next question comes from Amit Anwani from Prabhudas Lilladher Pvt Ltd, please go ahead.

Amit Anwani

Hi, so my question is on the 20% growth that you're talking about and achieving a \$3 billion revenue by FY25. So, reflecting any inorganic growth here, and how the domestic versus international will look like anything that you're affected about this?

Manish Mohnot

Are we factoring in today, any inorganic growth, the answer might not be very business, we are looking at inorganic opportunities, but not very significant in nature, are approaching inorganic growth, always, if you look at whatever we have done in the last 15 years has been that by companies, which are small with a good team and then grow it. So, even if we look at inorganic growth, it's not going to be significant in terms of numbers for the next two years. It will be significant from a long-term perspective, but not in terms of numbers for the next two years.

And the second question was on, sorry, I missed the second one, international domestic. I think the focus clearly is international from a long-term perspective. Today, our revenues we'll look at it as 1/3rd international 2/3rd domestic, but getting into the next few years, it might be at the range of 50-50 or at least 45-55 till 2025. Beyond that, looking at opportunities, this numbers can be plus or minus, but our focus on international business is a lot more given the visible opportunities and given a presence in more than 70 countries.

Amit Anwani

So, the next question is on the working capital situation, which we might be seeing for the high growth segment, which you mentioned, including building, factories, water and urban infra compared to the traditional segment, which we had.

Manish Mohnot

There's always a challenge for people like in terms of growth versus working capital and if you look at Kalpataru through historically, if you pick up the numbers over the last decade, you'll see that we've always been conscious and working capital and it's never been revenue just for the

sake of revenue. So, while we have challenges in a few segments, which are back end in terms of payments, but we will be focused on balancing this with segments where, payments are not as stretched or too tight, we still believe that staying in the range of 120 days of networking capital at a consol KPTL & JMC is what is achievable and that's a good target to stay with, with a growth projection for the next two years.

Amit Anwani

Sure. With respect to margins for next one and a half, two years, so as we already highlighted that commodity softening and all other factors would definitely improve the margins on here and we are talking about synergy post JMC, so how soon we are looking for double digit margin, anything that you would like to have it?

Manish Mohnot

I just want to be cautious at this stage on saying that it's not that, margins will not improve margins will definitely improve, but I'm not ready to commit a number as of now for the next year and the year after that year. Yes, we have targeted to be PBT levels of 4.5 to 5%, going forward and even the current year, but EBITDA margins will continue to be in the range of 9 to 10%, even in the, for the next two quarters and even for the next year. But we will revisit this numbers when we get into Q4 because that will give us a lot more clarity on the order book for the next year.

Amit Anwani

Sure, thank you.

Moderator

Thank you. Next question comes from Jainam Shah from Equirus Securities Pvt Ltd, please go ahead.

Jainam Shah

Yeah, thanks for the opportunity. Question relates to the JMC Projects. So earlier, we were talking about the VEPL. However, in the last one, we are going for the refinancing of that project. However, in this current presentation, we were not seeing any mention, so going any refinancing over there?

Moderator

Jainam Shah, sorry to interrupt you. Your voice is not clear, sir.

Jainam Shah

So, I'm talking about the VEPL project, so we were doing the stake sale for the project, however, in the presentation, it has been mentioned that we are going for the refinancing of the project. However, currently in this recent presentation, there is no comment for the project, so are we going for refinance this project, or we are just looking for a longer refinancing as of now.

Manish Mohnot

To answer you, the revenues are substantially improved, so when it comes to the refinancing options are open, but if you're asking me tomorrow basis, the answer is no. We will look at the right opportunity and go for the refinance, but at the same time, there is no desperation.

Jainam Shah

Okay. Thank you so much.

Moderator

Thank you. Next question comes from Thomas George, an Individual Investor. Please go ahead.

Thomas George

Good morning, Mr. Mohnot and Mr. Tripathi. It's so nice to connect with you again. I didn't want to question, What was the status of the Turkish project for which we had taken him I think the market report and then I'll get to my second question after this.

Manish Mohnot

Turkish project, I'm not sure we've taken any project in Turkey on building and factories or any of the other segments.

Thomas George

There was a joint venture partner from Turkey for I think one of our tunnelling projects and they will give us a news article that there were some issues regarding security clearance or.

Manish Mohnot

Yeah, that was that was okay. So sorry, I got it wrong. I thought a project in Turkey. Yeah, that was a project which we are waiting for NHI, where we have a Turkish partner. I do not think we are getting that project that we were alone in that project, but for some reasons related to security and a few other aspects. We will not qualify for it, so we've removed that project out of our L1 and order book, out of L1 long time ago, will not be getting that project is what indication we have as of today from the relevant ministry and the officials.

Thomas George

Right, sir. And the second question is, again, a little bit more generic. So, what is the way forward for inviting new technologies in EPC field? I mean, what are we going to be doing in terms of getting more advanced in terms of capabilities of the company? If you can maybe share some words?

Manish Mohnot

Sure. I think this is a very good question and a very important question for our sector, traditionally our sector has been more brick and mortar, right. And it's been known as a sector which is brick and mortar. But if you look at the way technology has come into different segments of our sectors over the last five years, it's just been amazing. So, let me just spend a few more minutes on this transmission if you will, we start from basics of transmission, right. Today and transmission we have technologies which can take care of a lot of things we can do drone stringing, we can use helicopters for erection, we can do foundations using curing methodology by which the timing is very low, we can do corrections using, technology by which the entire cycle comes down significantly. So, there are technologies which have been built up in all segments.

So, transmission a lot happening on stringing as well as on foundation. If I go to water a lot happening in terms of syntax, paging, shattering the entire technology to build water pipelines as well as the reservoirs right historically we used to do ceiling shattering which was plywood. Today, we all shifted to aluminum and modular and going beyond that. The entire O&M of water is now done using technology solutions, which are unbelievable and all machinery when you look at it,

we recently had a big team, which went to Bauma, which was there in Munich just a few weeks ago.

And it was it was an eye opener on the kinds of opportunities on the machinery segments, not only on productivity, but productivity, fuel consumption, electricity driven productivity and monitoring of all parameters. So even on machinery, whether it is the dozers, excavators, which are very basic and, whichever is required at all projects, you're seeing huge improvement in technology, we no longer have problems we have used to have in the past on, on fuel, on productivity on how many hours of operation and that's very helpful.

But when we say so we also need to remember, as I said earlier, we're still in brick and mortar, we'll still need labor to do a lot of things, computers or robots will not replace them, and will still be a labor-intensive business. Even on buildings and factories, the kind of technology we using on class today we reach a cycle where majority of a building the slabs are happening in 7 to 10 days, and sometimes less than that, which traditionally, if you go five years ago used to be 20 or 25 days. Our biggest advantage and technology also our EPC platform, which we've been using for more than 10 years with everything in the organization, right from a site DPR to a purchase order, to a monitoring of any cash flow, to a plant, output, to MIS everything comes from one platform, which is SAP across all projects across all countries.

So, we continuously investing in technology, or on an average, we've been spending more than Rs.20-25 crores every year for the last 10 years. And that number will further go up based on what we have seen in the last Burma on at least equipment and machinery even at the plant level, over the last three years we have while the plant output has been very dismal because we've not had a lot of order book and transmission, but a lot of technology improvements has come whether it is on the same coating and the relevant things or whether it is the OEE at a plant as well as at a every machine level. The big focus area for us and we have a dedicated team, which works on this real time, our focus continues to be being real time connected to our workers, to our plant and machinery and to our site. And today we have achieved that on a scale of 10, my view 7 to 8, but that scale keeps on changing real time.

Thomas George

Right, sir. That's a splendid, wishing you all the best and much more success. Thank you, sir.

Manish Mohnot

Thank you.

Moderator

Thank you. That will be the last question for the day. Now I hand over the floor to Ms. Bhoomika Nair from DAM Capital for closing comments.

Bhoomika Nair

I would just like to thank everyone for being on the call and the management for giving us an opportunity to host you as also answering all the questions. Thank you very much sir for the outlook and wish you all the very best.

Manish Mohnot

Thank you. Thank you very, very much.

Moderator

Thank you. Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good day everyone.