



“Kalpataru Power & JMC Projects Q2 FY 2017 Earnings Conference Call”

November 15, 2016



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Moderator: Ladies and gentlemen, good day and welcome to Kalpataru Q2 FY2017 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in listen only mode and there will be an opportunity to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Ms. Nair!

Bhoomika Nair: Good morning everyone. Welcome to the Kalpataru Power and JMC Projects Q2 FY2017 earnings call. The management today is being represented by Mr. Manish Mohnot, Managing Director, Mr. Kamal Jain, Director Finance and CFO, and Mr. Manoj Tulsian, Director (Finance) and CFO of JMC Projects. I 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. A very good morning to everyone. We have declared our second quarter and half yearly results of both KPTL and JMC and the copy of the results, press release, and presentation have been mailed to the majority of you all.

Before proceeding for the Q&A session, I would like to take you through the key highlights of the results and recent developments. In KPTL, we have achieved 19% topline growth on the back of good order inflow received during the end of last year. We are expecting even a better execution in the second half of the year and we are still targeting closer to 20% growth for the entire year.

We have achieved core-operating margin of 10.7%, which is in line with our sustained target levels of 10.5% to 11%. We are expecting similar levels for the second half as well, so it should remain in the same level of 10.5% to 11% as far as operating margin is concerned for the entire year.

Along with good growth numbers, we were successful in containing the debt levels due to better working capital management and better advances on a few projects. It has resulted in decline in interest cost by almost 30%.

Our net order intake for the quarter in Kalpataru was Rs 2000 Crores due to which our order book at the end of September 30, 2016 is closer to Rs 9400 Crores.

In JMC, the topline had declined by 10% with operating margins at 9.7%. We are expecting weak execution in few of our projects to some external factors, which could impact our planned growth for the year.

In addition to the sluggish private capex especially in the real estate sector is impacting our growth. Considering all these factors, we are not expecting any topline growth in the full year.

On the margin front, we have reached to our target levels of nearly 10% despite impact on execution, we are confident to maintain these levels for this full year. During the last quarter, we have received three building projects worth around 440 Crores. Also recently, we have secured a residential building project of around 600 Crores. In addition to this, we are L1 in position of over 1000 Crores in JMC.

On our road BOOT projects portfolio all our four road BOOT projects are operational on full toll and full-length basis. During the last quarter, we had collections of around 44 lakh per day. We have observed some traffic growth in few stretches at the same time on overall basis we are expecting a growth of 5% to 7% in this runrate by the end of the financial year.

In Shubham, our team building exercise is nearly done. We have just appointed a new Managing Director, Mr. Maneesh Mansingka who has joined us with a lot of expertise in this sector. Given the good monsoons and the good harvest season we expect Q3 and Q4 to be much better than Q1 and Q2. With this update, I would like to open the floor for Q&A session.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will get the first question from the line of Ranjit Sivaraman from Antique Stock Broking. Please go ahead.

Ranjit Sivaraman: Good morning Sir. Congrats on good set of numbers. Sir when we look out at our midterm margin it has been a bit low compared to last year. So it is because of some more stress in infra segment because currently we do not give our breakups. We just want to get some colour on that?

Manish Mohnot: No I do not think, it has not to do anything with infra segment. Infra segment is doing much better than what it was during the previous year. In the previous year and Q2 had a few bought out supplied to a few international projects, which had much higher margin than the normal ones and that is why the margins were very high in the previous year Q2. Otherwise, it has been on track as far as growth and margins are concerned. There is no negative impact on any infra Division.

Ranjit Sivaraman: Any forex related gain loss, which is substantial to mention?

Manish Mohnot: On an overall basis, if you look at the interest numbers, I do not think there is significant forex related gain or loss. On the interest numbers, there could be a small number, which would be like some 50 to 70 lakhs, nothing more than that. So there is not a significant impact coming out of forex gain or loss at least in this Q2, Kamal you could tell us if there is any significant gain or loss, which is there. I do not think so there is any significant gain or loss on the forex.

Ranjit Sivaraman: Sir in our order intake perspective, we get to understand one of the big projects of PGCIL and IPTC projects there is certain delays because of some issues. So because of that do you see the overall ordering activity from PGCIL to be a bit mutated and SEBs will be one, which will be driving the order intake this year?

- Manish Mohnot:** Our expectation is that we should see good traction of orders coming from both SEBs and PGCIL in the second half. Yes PGCIL we could have done better in the first half, but because of some delays, some orders have got delayed. We continue to maintain our targets of 7000 to 7500 Crores inflow of orders in the current year out of which we have already received around 4000 Crores in the first half and we are confident that we will get a minimum of 3500 Crores into the second half if not more than that.
- Ranjit Sivaraman:** If you can mention, which are the SEBS, which you are seeing traction and going forward will be queue of your order intake will be more SEB in the domestic front compared to PGCIL in terms of the overall percentage weightage in the domestic order intake SEBs will be a key factor is that understanding right?
- Manish Mohnot:** It might not be exactly the way you are representing SEBs might be much higher than PGCIL. Yes SEBs might be a good number even better than what it was in the last few years, but still PGCIL a lot of orders, which have got delayed, should come in Q3 and Q4. So from our perspective on the domestic front, I think we see equal opportunity in PGCIL and SEBs as well as private sector opportunities. At SEB levels we continue to focus on the southern and central SEBs, which is primarily Karnataka, Tamil Nadu, West Bengal, MP, UP, and Maharashtra. So this is our focused SEBs and I think that the traction should be similar between the SEBs and PGCIL.
- Ranjit Sivaraman:** Sir finally in terms of your land there was some real estate liquidation is everything overall is there something pending in that and how much that can be if you can quantify a bit on that?
- Manish Mohnot:** There is no further investment expected in any of the two real estate projects Thana and Indore, Thana we have sold significant portion of it, balanced is leased out. Indore, the execution is in full progress and we expect sales to pickup now with the current environment, there could be some delays, but we expect sales to come up in first quarter if not the first half of next year.
- Ranjit Sivaraman:** Thanks. I will join for further questions.
- Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.
- Renu Baid:** Good morning Sir. Sir first thing on the execution, we have been guiding as in if I recollect last quarter, we mentioned a 25% kind of sales growth and this time you are mentioning about 20% for the entire financial 2017. So is it that that we see some projects moving slightly slower. We have tapered down the growth target numbers and what inspires the confidence that for the full year in talking of 20% growth second half we could be able to grow by almost 30% with respect to sales this year?

Manish Mohnot: Renu we saw some delay coming in to some of our international projects primarily due to issues related to design approvals and delays in terms of procurement approvals and some of those. Now we have majority of these on track. So given that we are confident that you could see easily a minimum 20% if not higher growth coming into the next two quarters. We did taper down our growth projections from 25 coming down to 20 levels because when we saw those delays coming in we realized that the revenues could get shifted to '17 to '18 instead of '16 and '17. On an overall basis, I think it is only a timing issue nothing beyond that because our margins still continue to be held in the range of 10.5% to 11% and I do not think any of these delays would have any impact on margins.

Renu Baid: Second half approximately 3000 Crores kind of sales you have sufficient amount of visibility and comfort that despite the current headwinds you would be broadly on track?

Manish Mohnot: Yes in the range of 3000 Crores plus or minus 100 Crores.

Renu Baid: On debt reductions how are we seeing things moving as in though we see one of gross basis or on a net basis QOQ debt have been similar, but interest expenses have increased. So how are we looking at the entire debt reduction or debt containment exercise and where do we see our borrowing cost heading through. So any savings expected on that side or what is your view on that?

Manish Mohnot: See we have been continuously focusing on working capital reduction in the last four quarters and if you see our numbers you will see a continuous reduction visible there. Not only on debt, but also on overall interest cost. I think our focus still continues be on keeping debt levels at the minimal levels by focusing on execution making sure retention on close projects reduces making sure that the collection is much faster than what it used to be in our normal cycle. If you see the six-month numbers you will any way see interest has come down significantly. So on a six-month basis interest has anyway come down in totality whether you look at quarterly or six months it has come down significantly. It is down by closer to 26 Crores with topline going up by around 10% on six months basis. Yearend we expect the half one to be similar as far as interest cost is concerned for half to two H2, so we are at 54 Crores and as far as half one is concerned and we expect to half two to be in similar levels, so yearend we should at end at anywhere between 105 and 110 Crores as far as interest is concerned.

Renu Baid: On Shubham Logistics how are we as broadly any visibility on what other broad range of numbers there and where do we see the business strategy moving with respect to how the company is expected to perform for this financial year. So any highlights on how do we see numbers at Shubham panning out in the second half of the year?

Manish Mohnot: See in Shubham our priorities for the first six months were primarily to rebuild the entire team now, which is entirely done. We have got a new MD who has joined us Maneesh Mansingka. We have got a new head of warehousing, a new CFO has joined in, and at least six to seven new people who come

with relevant expertise have joined our organization and they have all joined in Q2. Some in Q1, end of Q1, and some in Q2. The entire team is now in place and anyway Q2 was supposed to be sluggish because post monsoon you see warehousing pick up only starts on Q3. So given that we expect Q3 and Q4 to be definitely a bit up positive. it might not be overall positive given the huge interest cost, which we have there, but we expect Q3 and Q4 to be much, much better than Q1 and Q2. Our targets now are to make sure that our warehouses get to 90% plus utilization, which are right now at 60% to 70% and which we believe would be easily possibly getting or we have already seen this traction happening in the month of October 2016 itself where some of our warehouses in MP and Maharashtra, which used to be at 25% to 30% utilization have gone up to 60% to 70%. Rajasthan still continues to be 90% plus and Gujarat is low at 50% to 60%, which will also pickup now. So our first aim of building the team is already done. Our next plan is to make sure that we achieve utilization levels, which are 90% plus and once that is done then we should see the company back to track. On an overall basis, I do not see this year the company will make margins. We have seen losses in the first half of around 40 Crores. The second half we are expecting losses to be around 20 Crores on the next six months. But getting into the next year we are very hopeful that the company would be having positive numbers.

Renu Baid: Sir and my last question is on the BOT project, which you mentioned of FC achieved in the last month, so how are we looking at execution on that project panning out and are the other timelines in progress there?

Manish Mohnot: Yes we have got a 164 approval already on that so as far as we are concerned the financial closure done, 164 approvals is in place, and the construction work has started already. The first foundation was done around two weeks ago. So that is also in place. I think given the timeline, which we have of around 33 months, we should be completing the project on schedule. We do not see any challenges on that.

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

Moderator: Thank you. We will take the next question from the line of Sanjeev Pandey from Sharekhan. Please go ahead.

Sanjeev Pandey: Good morning Sir. My first question is KPTL standalone number on the debt gross loan if I look at the numbers is largely same. The net debt reduction that we can see is primarily because of the higher cash and cash equivalence. Is there is any one time something has happened or it is because of cash that we have generated out of the operations that has improved substantially from 50 Crores last year to somewhere around 331 Crores?

Manish Mohnot: Sanjeev we had some huge cash inflows, which came in the last few days of the quarter end and we took a conscious call to keep that money in the EFC accounts given the dollar rupee rates and that is

why that money was lying in cash equivalents. Typically we do not keep huge money in cash equivalents. If the money came on 29 or 30 and the dollar rupee was what they were at that time point of time, we took that strategic call to keep it there and later that money has flown back into the normal debt levels.

Sanjeev Pandey: Second regarding Shubham just now you said the target to improve make it positive net level just to confirm next year, so you will think that on a net basis we can be positive next year and just add on to that what is that if you can help us the new strategy or are we doing the same model that we used to do or have we learnt something in the past experience and now what are the new things that we should be doing or we should be avoiding, so that it could be in a better or a probably improved way we can work out?

Manish Mohnot: So this is a very good question. Let me explain this properly. Yes there that has been a lot of learning in Shubham. I personally take responsibility to correct some of mistakes, which happened in the past. So one of the learning's was that a few businesses like trading in arbitrage is something, which we as corporates do not want to really focus in a big way. So our focus will now continue to be in warehousing and all the related services to warehousing whether it is collateral management, commodity funding, laboratory testing, and all of those. So yes we are planning to have Shubham at a positive level getting into next year. So if you look at the numbers basically we need to achieve around 70 to 80 Crores of warehousing revenue to be at those levels where we will be positive and if you go back in 2012-2013 and 2013-2014 we have done more than 100 Crores of warehousing revenue. So it is something, which is easily doable. It is just that transition we had to rebuild a team, we had to regain the confidence of customers, and all of that, which takes time and things like this and also whatever confidence of the team, making sure motivation levels are high, and all of that has been done now. So we are fairly confident getting into the next year we should be entering the positive zone.

Sanjeev Pandey: Sir anything that you would like to highlight regarding any new thing that you is trying to do or something in strategic level?

Manish Mohnot: At the Shubham level or overall?

Sanjeev Pandey: At the Shubham level.

Manish Mohnot: As I said our Shubham level strategy is very simple. We continue to expand on our warehousing operations. We will continue to take as many leased warehouse we can in various parts of the country and focus on warehousing and related services because on a capex front it will be minimal capex if not zero as far as Shubham is concerned because we have already put in enough capex in the past and our focus would be to just increase warehousing revenue over the next six to 12 months.

- Sanjeev Pandey:** Thanks a lot Sir. That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Charanjit Singh from BNK Securities. Please go ahead.
- Charanjit Singh:** Good morning. Congratulations on a good set of numbers. Sir if we have to look at the second half, we will have to achieve around 30% kind of a growth on the topline to achieve our lower end of the 20% growth. So one is like if you can help us understand again in terms of you know the international projects what were the issues and how those issues have been resolved and we can see this kind of a growth panning out in the second half?
- Manish Mohnot:** So Charanjit if you look at projects today transmission overseas projects is around 57% of my order book. Significant portion of this order book is closer to 90% of this order; we have won order in the last six to nine months. Typically in a transmission project once you have won the order there is a long phase of design, testing of towers, testing of all the materials, and getting the team in place, which takes anywhere three to six months. Some of our large projects it took much longer time than what we had expected. Now all of those things are in place and that is why we are confident of achieving a much better growth in half two whether it is going to be 30% or whether it is going to be 27% or whether is going to be 32% it exactly depends on how things pan out, but it is definitely is going to be much, much better that what we had seen in the previous year.
- Charanjit Singh:** Sir and if you look at the from a PGCIL perspective or from a power transmission perspective there are a lot more tenders from which are going to be place on a TBCB route tariff based competitive bidding, so what would be our view in terms of would we like to go ahead and bid our self or be partner with some of the other private parties. How are we positioning in the market?
- Manish Mohnot:** Yes positioning continues to be exactly the same what it was in the past. That we will continue to look at opportunities where we can make a return in excess of 15% at equity level. So if we look at two assets and now the third one also, which we have just financially closed where execution will start. So as long as we get those returns, we will look at those projects, but not of very high value. We will look at projects where our surplus cash flows can be deployed in there, but not of very significant value unlike the other private sector players. As of now, we already have one project in hand. Our entire focus is on execution of those projects so that it gets delivered on time. For the other projects, we will bid, but we will not bid in a manner to win it at very aggressive price levels.
- Charanjit Singh:** Sir the last question from my side is on the infra segment, which we have. Sir what is the outlook for that particular segment in terms of both order inflow and execution and do we see it scaling up further in FY2018 based on we are hearing that a lot of activity on the railway front is picking up and we can see further activity on that front?

- Manish Mohnot:** I think we continue to maintain our stand as far as infra sector is concerned of seeing that this sector can do much better than what it has in the last few years both on topline and bottomline. We are seeing a lot of traction on orders both in railways and pipeline division. In pipeline division itself we have bid for orders of more than 1500 Crores, which are yet to be opened and which we expect should open in the next month or so. In railways, we have orders worth 3000 Crores to be bid in the next few months. So from that perspective, we see a lot of traction there. So from that perspective we see a lot of traction there. Our focus has been to make sure that we build robust team there on execution and that has been our continuous exercise. As far as those two divisions are concerned, I expect a much better growth going forward and also from an order book today we had 10% of Kalpataru order book I expect them to reach 15-20% by the year end on a totality basis.
- Charanjit Singh:** Sir just if I can add on like we are hearing that may be the competitive intensity in the pipeline business is it reduced and how is that even the competitive intensity in the railway segment, if you can help us understand that?
- Manish Mohnot:** So, I think it is more than competition it is your ability to execute in the given timeframe, while competition is critical but what we have been focused on building is the execution within the defined timeframe. So competition is realistic both in pipeline as well as railways. I would not say it is less or more. There is realistic competition but our focus completely is to make sure that we took those right projects which we can deliver on time, because historically we have seen that our maximum loses happened because of delays not literally due to bidding aggressively or any of those factors.
- Charanjit Singh:** Thank you Sr. That is all from my side.
- Moderator:** Thank you. We will take the next question from the line of Ankush Mahajan from Edelweiss. Please go ahead.
- Ankush Mahajan:** Good morning Sir. Sir my question is related to JMC. Sir what are the external factors that are impacting the execution on the JMC side?
- Manish Mohnot:** Manoj can you just answer this question please?
- Manoj Tulsian:** Good morning. A few things, which we have seen which has disrupted execution in Q2 is to some extent due to the slowdown in the real estate . Also there was a disruption in southern territory because of the Kaveri issue for around 10 days especially in Bangalore and in Q2, there were unprecedented rains also in some portion of Bihar where we have two major projects and the work suffered more than what we anticipated. So, these are some of the reasons because of which the execution actually has slowed down.
- Ankush Mahajan:** How do you see sir, the execution of the current order backlog further now Sir?

- Manoj Tulsian:** As was said in the opening speech also, we are not able to see any growth in the topline, which still gives us a challenge of doing around 1300-1350 odd Crores in H2, which we see possible right now and because some new orders also have come which will also start getting into the execution mode and normally the disruptions are much lower during this part of the year.
- Ankush Mahajan:** Okay. Sir, my question is that in the current order backlog how do you see the execution delay that is from the client side. How do you see the execution on the order backlog Sir?
- Manoj Tulsian:** In the private space, as I told you that we see some slowdown in the real estate and which is also at times resulting into delay in approvals from their side on many of the fronts. So we have to wait and see how it actually pans out in the next six months or one year and on the government side it is case-to-case basis. So, good part is that we have close to around 40% of our order book today which is all government related. So, there is a healthy mix and also we have around 25% of our total order book from infra segment which if you recall we have been mentioning in our strategy, that for last two years we have been now trying to build up the infra book again, assuming some of this slowdowns which we were apprehending in the real estate sector.
- Ankush Mahajan:** Sir, in the earlier concall our toll daily collection is 52 lakh per day, now it is 44 lakh per day, so why sir there is so difference?
- Manoj Tulsian:** So, Q2 actually has been lower. . On the three of our projects, it is lower than Q1 collections. There is some aspect of seasonality also but even after factoring that we are still lower by around Rs.3 to Rs.3.5 lakh. Normally in Q2, we should have been at the level of around 47 to 48 lakhs but we are still lower than that. That is a bit of a worry and if you see right now also, nowadays, there are lot of disruptions which comes without any reason, so if you see right now all the tolls are free after this demonetization, it started from 9th and the last notification yesterday had said that up to 18th all the tolls are free. So, these are things also which comes as disruptions from time to time.
- Ankush Mahajan:** Sir, how much the equity be required to infuse in BOT toll assets for the April 17?
- Manoj Tulsian:** This year we have put around 35 Crores in the first six months
- Ankush Mahajan:** Next six months Sir and sir for the next six months.
- Manoj Tulsian:** Next six months, we are expecting-- it should be anything in the range of another 30 crores.
- Ankush Mahajan:** Sir, can you give us the name of clients whose projects have been delayed in the current order backlog.
- Manoj Tulsian:** That we would like to avoid .

- Ankush Mahajan:** Sir recently we got a 440 Crore of new order flow in the last quarter and in 1000 Crore we are L1. Can we get a breakup in terms of clients or in terms?
- Manoj Tulsian:** In the L1 position of 1000 Crores, only 25% is from real estate.
- Ankush Mahajan:** 25% is the real estate.
- Manoj Tulsian:** Yes.
- Ankush Mahajan:** Sir in the starting of the concall said that 600 Crore of big project are from real estate?
- Manoj Tulsian:** No. So, I am saying the L1 position, which is 1000 Crores. Till date we have declared orders of 1200 Crores in which infra was only 200 Crores. Rest everything was related to real estate.
- Ankush Mahajan:** So this year, we are expecting a flat growth?
- Manoj Tulsian:** Yes.
- Ankush Mahajan:** Thank you Sir. That is from my side.
- Moderator:** Thank you. We will take the next question from the line of Aditya Mongia from Kotak Securities, please go ahead.
- Aditya Mongia:** Good morning everyone. My first question was related to the Indore land sale wherein on the presentation it talks about 8% of saleable area being sold. What has been the quantum being realized and has it flown into the standalone balance sheet?
- Manish Mohnot:** So, Aditya Indore this 8% was sold during launch stage itself, which happened in Q1 itself. Q2 we have not so typically you see sales happening because this is all residential flats when you launch it or once it starts into the development mode. So, we have not done much in Q2. So, once right now the focus on the execution of the project and that is completely on track. So there is not much, which has flown into the revenue from Indore as far as the numbers are concerned.
- Aditya Mongia:** Okay. On Shubham, just wanted to get a sense that the numbers suggest that while there is a large 40 Crore losses in 1H and the debt levels have actually come down and that has happened in 1Q as well as 2Q. So, just wanted to check whether are there any non-cash cost provisions taken in the quarter or how do we see through this?
- Manish Mohnot:** No. I do not think there is any non-cash cost provisions. There was a lot of debt, which was stuck in trading goods, and arbitrage goods, which I had explained earlier in the call in Q1 as well as the previous year quarters. So, we have exited all those positions. All that inventory has been sold off and

the debt has been repaid. So debt has been come down, inventory has come down. So, if you look at it, you will see debt, inventory, receivables, all coming down compared to the previous year as well as the previous quarter. There are no non-cash provisions, which have been made.

Aditya Mongia: Moving onto the standalone business, if I were to see just order backlog and proportion of state SEB orders in that backlog and order has moved, it appears as if almost everything from an execution perspective in 2Q for standalone has come from SEB orders getting executed which means PGCIL and international orders have a limited contribution is that a statement to make for 2Q?

Manish Mohnot: Yes Q2 significant revenue scheme from a few SEBs we did not get much impacted due to monsoon, so southern SEBs where monsoons get typically delayed and where monsoons would come in starting into October, November we had very good traction, so yes Q2 significant proportion of our revenue came from SEB's orders which were secured last year.

Aditya Mongia: Sure. Sir the way I see through it in that SEB order would definitely be requiring greater working capital kind of requirements and the fact that SEB's limited share of backlog today let us say 3%, where do you see the debt levels by the year end for the standalone business from here on?

Manish Mohnot: There are two perspectives, one it is not necessary that all SEBs require huge working capital, it completely depends on who is funding those projects. So if you see our SEB projects, majority of them are funded by external funding agencies. One of them is KFW and few others, which are all funded by external funding agencies. One of them is KFW and a few others, which are all funded by external funding agents, use to the debt so the working capital levels are not like a typical SEB project. Second aspect as far as the second question was more concerned on sorry I missed it on SEB execution going forward right?

Aditya Mongia: Essentially on the debt levels by the year-end where do you see?

Manish Mohnot: Debt levels we continue to maintain a stand that with the growth levels we expect that levels to be in the range of 700 odd Crores although net levels right now is around 450, 500, but with the growth we expected anywhere to be the maximum level we have targeted in the range of 700 Crores and a standalone level.

Aditya Mongia: Thank you.

Moderator: Thank you. We will take the next question from the line of Ravindranath Naik from Dolat Capital. Please go ahead.

Ravindranath Naik: Good morning Sir. Thank you for taking my question. Sir just regarding this interest cost we have there is a commendable task that we have reduced the interest cost but Q-o-Q there is an increase in

the interest cost in this particular quarter and we are targeting 28% growth from H1 to H2, how we can contain this interest cost to 105 Crores that you are targeting?

Manish Mohnot: Ravindra if you look at our net debt levels as of September 30 we were more in the range of 450 Crores and I had projected that our debt levels which we expect the year end would be anywhere in the level of 700 Crores so given the growth levels even if I assume a 700 Crores level and our average cost of borrowings is in the range of 10% we should still be at levels of around 40, 45 Crores of interest for the balance six months and we are right now at 450 so I have already kept myself a cushion of 250 Crores which would be required for all the planned growth for the next six months and we are very confident that we are looking at the current interest levels and the debt levels we will easily achieve that. Also QoQ I do not think our interest cost has come up its come down so previous year quarter it was so the QoQ as compared to quarter one right because quarter two means our growth of around 20% coming in around 19% and that is what is coming there.

Ravindranath Naik: Sir in volume terms what would be the growth in the transmission business in this particular quarter, quarter-to-quarter basis?

Manish Mohnot: I think significant both our businesses infra and transmission would have grown similar levels, infra has also grown at levels of 15% to 20% and so is transmission.

Ravindranath Naik: So hit into 30% in both transmission particularly?

Manish Mohnot: And infrastructure yes.

Ravindranath Naik: Thank you.

Moderator: Thank you. We take the next question from the line of Pavan Parekh from HDFC Securities. Please go ahead.

Pavan Parekh: Sir my first question is on the margin so 10.9% is obviously is the standalone margins if you could give some color in terms of how this margins have been for transmission and infrastructure segment?

Manish Mohnot: Our infra margins have been more in the range of 7% to 8% at an operational level and transmission is higher than in the range of 11% plus but infra if you have seen over the last four quarters as well is YoY or QoQ it is just continuously improving so infra margins we expected to stabilize in the range of 8% to 9% and transmission in the range of 11%.

Pavan Parekh: Secondly Sir if you could give some more colour in terms of what is the pipeline in the TBCB side and order flow from private T&D projects?

- Manish Mohnot:** There are projects in TBCB of around 10000 odd Crores to be bid over the next couple of months there are around 9 or 10 projects which have already floated by REC and PFC. We would be focusing on a few projects and not all of them at in terms of making sure a strategically we have a right costing and get a good return whether it will or not completely different on competition but they will be focusing on a few projects from a bidding prospective. On the private sector, we see opportunities coming up there are a few tenders which are in the market which we are bid for and we should know the results of it going into the next couple of months. We are not L1 in any of the private sector projects in our declared L1 order book.
- Pavan Parekh:** Sir lastly so in the previous call you had mentioned that this year we are looking at an order inflow of about 8000 to 9000 Crores and just now we said about 7000 to 7500 so is that 7000 to 7500 is the only order inflow for T&D segment or is it for the entire standalone entity?
- Manish Mohnot:** So we are very confident of 7500 Crores but given the delays which have happened that PGCIL as well as a few other sectors in the infra segment we believe that there could be some deferment of orders getting into the next year. So as of now we are L1 in 2000 Crores which we are very confident will come through in quarter three actually we have already got orders of around 500 Crores in the last month or so and we expect 2000 Crores orders to come into this quarter we have bid for orders in excess of around 8000 Crores as company as a whole which are yet to be opened up, so assuming our target rate of whatever 10%, 15%, 20% I think we are very confident 7500 Crores happened, but if this traction in PowerGrid as well as infra segment coming in which we hope it would and we can even reach those initial targets of 8000 plus as far as new orders are concerned.
- Pavan Parekh:** Thank you and all the best.
- Moderator:** Thank you. We take the next question from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.
- Subramaniam Yadav:** Sir I just wanted to confirm the order book at the end of Q2 for JMC project.
- Manoj Tulsian:** At the end of Q2 it is 5400 Crores.
- Subramaniam Yadav:** After that we got 600 odd Crores?
- Manoj Tulsian:** Right so as of today if you see it is 6000 Crores plus or minus whatever we have already executed in the month of October.
- Subramaniam Yadav:** Sir out of this 6000 Crores what would be the share of the private real estate player really?
- Manoj Tulsian:** Around 40%.

- Subramaniam Yadav:** Sir has you done any estimate of vulnerable real estate player going ahead because of rupee demonetization any impact or any assessment you have done?
- Manoj Tulsian:** It is too early to say and as we mentioned we have already been very cautious in the last two years in picking up any orders from the real estate players and most of these order book which is there with us today when I say 40% are from the prime developers of Bengaluru and where we really, if you ask today, do not feel that there should be much impact knowing Bengaluru as a territory or from the likes of Mahindra's and Tata's so we feel that it should not really come as a big surprise to us.
- Subramaniam Yadav:** Have not been the case of the Kavery issue or revenue what is the amount, which has got impacted because of this issue?
- Manoj Tulsian:** We could have easily done another 70 to 80 Crores.
- Subramaniam Yadav:** Sir last quarter you mentioned that we will require only about 55 to 60 Crores in the BOT project roughly that amount, but this quarter you are telling that it is about 75 odd Crores what is the main reason for that?
- Manoj Tulsian:** No, I think what I mentioned, for first six months we have invested 35 Crores.
- Subramaniam Yadav:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Devang Patel from Crest Wealth. Please go ahead.
- Devang Patel:** On Kalpataru you mentioned 2000 Crores of inflows in Q2 the next accretion seems to be around 1400 Crores so is there any adjustment in the order book which explains the difference of 500 Crores.
- Manish Mohnot:** The net accretion is around 2000 Crores. We declared orders up to yes there have been some more orders we have got and there is one particular order in West Africa which is a value of around 450 Crores on KPTL standalone which has got deferred and we have removed that from our order book so our gross order inflow in Q2 has been around 2350 Crores, there has been adjustment or reduction of around 400 Crores so our net order inflow has been around 1950 to 2000 Crores. Am I right Kamal on this number?
- Kamal Jain:** Yes.
- Devang Patel:** Sir and secondly on JMC now the balance sheet looks very different the debt numbers have gone up under Ind-AS can you just reconcile what the debt numbers look like now?

- Manoj Tulsian:** See what we have done is just a regrouping. There were certain numbers, which were interest bearing and earlier have been shown under acceptances which were under creditors, which are, now moved to the borrowings.
- Devang Patel:** Sir and on the loan the investments also the numbers look higher so this is what kind of classification has happened here?
- Manoj Tulsian:** That is again a reclassification which is more of a BOT investments which we have already done and certain portion of that was been shown under loans and advances has move to investments.
- Devang Patel:** That is all from my side. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Abhijeet Vora from Sundaram Mutual Fund. Please go ahead.
- Abhijeet Vora:** Thanks for taking my question. Sir I have two questions first on this toll collections will it be made up to you by the government because of sudden sales is lower and also in the interim how will you manage the liquidity in terms of working capital or debt interest payment bank obligations basically?
- Manoj Tulsian:** This is invested to the BOT only. I think what we are doing is, we are doing a representation through NHBF which is the agency for this and also to the ministry that is, how do we explain this loss of toll so the combined view of all the tolling companies is that we have been requesting to the bank and to the ministry, that to the extent of this loss which has happened to us temporarily and also hold back the interest payable to the bank and once this money is reimbursed to us in some form by the government thereof that portion of the interest to the bank. We are all together trying to create this pressure so that the government also takes some immediate view on the same and reimburses us for this loss of toll revenue collection.
- Abhijeet Vora:** The representation is still on Sir?
- Manoj Tulsian:** Yes.
- Abhijeet Vora:** Sir second question is sorry I joined a bit late I wanted to get guidance on order flows as per the reminder of the year for Kalpataru standalone.
- Manish Mohnot:** See till now we have got orders of around 4000 Crores in half one. We are L1 in around 2000 Crores and we expect this order inflow in the year to be a minimal level of 7500 Crores if not slightly higher than that so right now our guidance is closer to 7500 Crores of fresh order inflows in the current year at a minimum level.
- Abhijeet Vora:** I will join back the queue Sir. Thank you.

- Moderator:** Thank you. We will take the next question from the line of Manish Bhandari from Vallum Capital. Please go ahead.
- Manish Bhandari:** My question is in one of the previous conference call you said that you have an intention of monetizing the book as yet so can you give me a realistic assessment of maybe a 20%, 25% impairment on the our equity side of the book business would there be an exit option for us?
- Manish Mohnot:** On the JMC BOOT business?
- Manish Bhandari:** That is right.
- Manish Mohnot:** Manish, we continue to look at strategically at investors who are keen to look at that business and we are exploring opportunities of exiting it. We will take a call based on the valuations provided by the probable players and even if we it is at a discount to our equity we will exist it whether that range is going to be 20% or 10% or 30% completely depends on the projected forecast as well as the bidding for the investor from a long-term perspective but yes we continue to focus on exiting it as and when we get a reasonable value to the entire portfolio.
- Manish Bhandari:** Would you have any valuation in your mind, which you are waiting for?
- Manish Mohnot:** Manish that would be a difficult question to answer because it would be very different for each other projects it would be different for the totality so it is going to be very different based on the assessment of each other projects.
- Manish Bhandari:** My second question is regarding the Shubham you have a private equity players you have any preconditions for them to give you an exit since you are not be in IPO or does it make some conditions superficially for the buyback of equity?
- Manish Mohnot:** We do not have any conditions on a buyback or any issue of returns from the private equity players. Tano Capital, who has been a private equity player on Shubham continues to stay with us doing this transition time where we had a big management change and they continue to be focused on the business from a long-term perspective.
- Manish Bhandari:** My last question is regarding you mentioned that you are looking at expanding the Shubham business to the lease and also what is the percentage of the ownership versus the lease player also in there you would like to be as well?
- Manish Mohnot:** See today if you look at it from our warehousing revenue perspective today is more than 60% of our revenue comes from own as well as our strategy clients with RSWC this is hardly 30%, 40% which

come from lease going forward we want to increase the leased warehouse revenue to levels of 60%, 70% and have our warehouse owned as well as strategic limited to 30%, 40%.

Manish Bhandari: Thank you.

Moderator: Thank you. We will take the next question from the line of Ankita Bora from B&K Securities. Please go ahead,

Ankita Bora: Sir this is Ankita here. My question was in JMC Projects although we understand that the revenue growth would remain flat this year so what margins and order inflow for this year. We had earlier guidance for 27 to 30 billion of order inflow for this year how do we see it panning out?

Manoj Tulsian: So see, order book we have already declared around 1200 Crores and we also mentioned that we have L1 position of around 1000 Crores so I think we are on the track of hitting the numbers anywhere between 2500 to maybe 3500 Crores so I think that is on track. Yes few of those orders slightly got delayed but anyway I think the year-end number would be on track. As far as margin is concerned, we are already in the range of around 9.7% to 9.8% for this year. Also there is some impact of Ind-AS on the same so this year our margin should be in this range of only around 9.7% to 10%. But in the long run I think after this Ind-AS impact is over we should be stabilizing somewhere around 9% on the margin front.

Ankita Bora: Sir the new orders in this quarter that we received 440 Crores building projects are there from the private real estate sector?

Manoj Tulsian: Out of that two are from private real estate sector and one is from government.

Ankita Bora: Sir then we are saying on one side that we are reducing our exposure to this segment which is relatively slow moving but our exposure to this segment on the other hand is increasing last year we had around 40% of private sector orders in the order book now it is 58% plus in the L1 position also almost 25% it is on the real estate sector, this quarter also we have got two private projects from residential real estate so what is the strategy going forward?

Manoj Tulsian: Ankita the strategy remains very clear that as I mentioned some time back in the call that if you see last two years we have moved from almost a 10% share of infrastructure order to almost 25% and this will get built up over a period of time. Our focus in the last 12 months on various calls, you must recall, that our focus is on infrastructure business and I am sure that with new challenges which is further there in the future retail or real estate orders these infrastructure book as a percentage to total order book will be much healthier by next year. Also to answer that, like this 200 Crores of orders we have got it from the likes of Tata, we cannot exit real estate totally. So we are very selective in terms of who are the developers and then we are still willing to travel that part to some extent. Even in real

estate we are looking at more of commercial space opportunity so we feel that commercial sales and if it is in the southern part of the country it is still doing well.

Ankita Bora: Just one last question on our interest expense so it has come down significantly in this quarter despite almost debt remaining on at similar levels reason for sudden drop in interest cost?

Manoj Tulsian: So we mentioned that for the full year we are looking at an interest cost of around 85 Crores which compared to last year of around 104 Crores if I recall correctly.

Ankita Bora: Reason for the same?

Manoj Tulsian: So the reason for the same was , monetization which we did in the month of February and which was the rights issue of around 150 odd Crores and we maintain that whatever is our year end balance we must be able to manage the same balance despite funding the BOTs for this year. So that is the type of improvement, which we are doing on the working capital side.

Ankita Bora: And how about our interest cost average rate?

Manoj Tulsian: We are anywhere around 9.7% to 9.9%.

Ankita Bora: Has that change from the previous year?

Manoj Tulsian: Yes it has reduced by around 50 basis points.

Ankita Bora: That is it from my side. Thank you.

Moderator: Thank you. We take the next question from the line of Swarna Maheshwari from Edelweiss. Please go ahead.

Swarna Maheshwari: Sir in KPP what is the percentage of order book from the fixed contracts and pass through?

Manish Mohnot: On a totality basis?

Swarna Maheshwari: Yes, on a totality basis out of 94 billion.

Manish Mohnot: I think around 40% would be pass through and around 60% would be fixed.

Swarna Maheshwari: Sir I believe this 60% fixed majority of them would be in the international side.

Manish Mohnot: Yes majority of them would be international and also few domestic.

- Swarna Maheshwari:** So in that case what would be our margins outlook on the international business considering almost around 60% of the order book is from the international side and there are like commodity pressures that we are starting to witness now?
- Manish Mohnot:** A significant portion of whatever we have fixed price orders at least on the aluminium side we have already booked our exposures and we have no impact coming on at least to bought out or a very small impact either way on bought out whether it was up or down. On the steel side there could be some impact but it would not be significant enough to have any dent on the margins this is typically towers in international order books are around 30%, 35% of the order book and in that there is a value addition component also so even if steel goes up by Rs.2000 it is not going to have a big dent on the margins it could be plus minus 0.10 or some levels like that and also inbuilt from contingency on all fixed price projects. So we are utilizing that continuously in case prices go up.
- Swarna Maheshwari:** Sir I think at the base what you are saying is like maximum around 20, 25 BPS kind of it is not more than that?
- Manish Mohnot:** No that is too high 20, 25 is too high it could be in the range of 5 BPS or may be less because we always have a buffer on all fixed price projects we do not go with fixed price projects at the same level of variable price projects.
- Swarna Maheshwari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhijeet Vora from Sundaram Mutual Fund. Please go ahead.
- Abhijeet Vora:** Sir now that you have the execution has started ramping up, I am talking about Kalpataru standalone of course the overseas projects you have explained the margins but how about the domestic will there be any fixed cost which will get leveraged or larger turnover so your margins might improve from here on and by when can we start seeing this faster momentum?
- Manish Mohnot:** I think on a fixed cost allocation we have already in that period at which hope our fixed cost is getting allocated to a higher plan margin for a year as a whole the allocation for the next six months definitely on fixed will be higher than what it was in the previous six months on an absolute number on a percentage number it would be lower so we have already inbuilt all of that while giving projections of transmission to be in the range of 11% and total Kalpataru to be in the range of 10.5% to 11%.
- Abhijeet Vora:** How about receivable this particular was there because of the higher turnover some timing element in the receivable?

- Manish Mohnot:** Yes, there was a few receivables which we received in the first one week of October which we were expecting it in the end of September it is around 150 odd Crores were expected in the last week came in, in the first week of October otherwise receivables as far as overall working cycle is concerned continues to be in the level of six months or so.
- Abhijeet Vora:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Renu Baid from IIFL. Please go ahead.
- Renu Baid:** Sir just a small clarification I know you have stopped giving segmental breakup but just like last quarter any colour on how was the sales mix between the T&D and the EPC infra sales for us?
- Kamal Jain:** For the quarter two it is around 30% is on the railway and pipeline and balance is from the transmission.
- Renu Baid:** About 940 - 950 odd Crores plus coming from T&D?
- Manish Mohnot:** Yes in that range.
- Kamal Jain:** More than that you can say around 1000 Crores.
- Renu Baid:** Okay Sir. I just wanted the clarification thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Sir on Shubham in last year that we talked and this was before being listed more money into the entity the strategy which was shared was than essentially if losses continue then we would take a call whether or not to remain your side in the business has that strategy in anyway change over the past two quarters?
- Manish Mohnot:** Aditya in the past two quarters the strategy has been more to rebuild that team because you believe in the long-term business not have a very good opportunity and while we continue to look at strategic investors and they would be keen to invest in Shubham and that option is always open for us but our focus in the last two quarters has been completely on making sure that the team is rebuild and we get back to the business as usual and that is what the focus has been and that is what the focus will continue at the same time if there is strategic investors who would be looking at Shubham we would definitely be excited to have them on board.
- Aditya Mongia:** Any plans for monetizing the T&D projects the BOOT projects that we are listed in?

- Manish Mohnot:** As of today no specific plans although we have a few strategic investors have shown interest in this segment and we continuously are looking at evaluating them but as of today no plans to monetize them and at least in the shorter timeframe.
- Aditya Mongia:** Just lastly on the West African order which is 450 Crores which has now been taken out was it an active order and essentially are there any exposure that we are having to that project right now?
- Manish Mohnot:** No it was not a very active order it was an order, which was received recently only so there is not any pending exposure on that order.
- Aditya Mongia:** That was the question from my side. Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Abhineet Anand from SBI Cap Securities. Please go ahead.
- Abhineet Anand:** Just a small clarification on the JMC order book of 5400 Crores what is the total exposure in terms of real estate specific on the private side if I might have missed that number?
- Manoj Tulsian:** On the 5400 Crores.
- Abhineet Anand:** On the 5400 Crores order book sir.
- Manoj Tulsian:** 40%.
- Abhineet Anand:** And in L1 you are saying we have 25% of the real estate.
- Manoj Tulsian:** Yes in L1 it is 25%.
- Abhineet Anand:** More so this question is more from medium-term so we have been doing quite well in Kalpataru standalone order inflow of that to you, so into 2018 how is the tender pipeline order inflow expectation just a broad market you would have done any numbers.
- Manish Mohnot:** So on order inflow as I said earlier we continue to be bullish as far as orders are concerned in quarter two and we will target minimum 7500 Crores if not slightly more than that in the current year.
- Abhineet Anand:** My question more from a long and medium-term perspective say beyond FY2017 all the tender pipeline looking and we have been doing quite well in FY2016 and 2017 also looks good so we are come to that 8000 odd or 7000 odd for some growth. So in case 2018 and henceforth where do we target our work inflow.

- Manish Mohnot:** See on a long-term perspective if you look at specific segments of our business the railways and pipeline we definitely see much better traction as compared to what we have seen in last 12 months on transmission domestic last six months was slightly sluggish at all levels whether it was the power grid SEBs and private sector we see that picking up in a big way it may going into the next 6 to 12 months even then going into the next few years. Our international projects we have seen some slowdown coming in the Middle East market and that slowdown is already inbuilt so from here things can only go better and it cannot go worse than where we are so on order book I think waiting into 2017-2018, 2018-2019 we would be slightly more bullish on transmission international as well as railways and pipeline.
- Abhineet Anand:** Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen that was the last question I would now like to hand the conference over to the management for their closing comments.
- Kamal Jain :** Thank you very much for your interest in KPTL and JMC for any further queries feel free to get in touch with our IR department thanks a lot to IDFC and Chorus Call for organizing the call thanks a lot.
- Moderator:** Thank you members of the management team. Ladies and gentlemen on behalf of IDFC Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.