



“Ashoka Buildcon Ltd Q3 FY11 Earnings Conference Call
Hosted by IDFC Securities Ltd”

February 10, 2011





*Ashoka Buildcon
February 10, 2011*

**MODERATORS: MR. SATISH PARAKH – MANAGING DIRECTOR
MR. PARESH MEHTA – CHIEF FINANCIAL OFFICER OF
ASHOKA BUILDCON LIMITED
MR. SHIRISH RANE –IDFC SECURITIES LIMITED**



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- Moderator** Ladies and gentleman good evening and welcome to the Q3 FY11 results conference call of Ashoka Buildcon Limited hosted by IDFC Securities Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference please signal an operator by pressing * and then 0 on your touchtone telephone. At this time I would like to hand the conference over to Mr. Shirish Rane from IDFC Securities Limited. Thank you and over to you Sir.
- Shirish Rane** Good afternoon everybody. Welcome to Ashoka Buildcon's third quarter FY11 conference call. We have with us today Mr. Satish Parakh, Managing Director and Mr. Paresh Mehta, Chief Financial Officer of Ashoka Buildcon. Initially I will ask Mr. Mehta to do a brief synopsis on the results which will be followed by question and answer session. Over to you sir.
- Paresh Mehta** Hello everybody, good afternoon everybody. I am Paresh. I will request Mr. Parakh who will give a review of the business and then we can go to the numbers.
- Satish Parakh** Yeah, this is Satish Parakh. Thank you Shirish, thank you Paresh. I welcome you all for the first conference call for the third quarter results of FY11. Before we present the results I would like to update you on some of the business developments. First I would like to say that we have achieved COD of our Bhandara toll project, and started tolling from October '10. The second development, we have achieved financial closure of two of our major projects, one is Belgaum Dharwad, which is 4 to 6 laning in Karnataka and have tied up debt of 497 crores. We have also done financial closure of Sambalpur-Baragarh Project and tied a debt of 810 crores. Another significant development is that we have bagged T&D EPC contracts of 156 crores. We have also bagged toll collections contract on Bankapur which is also in Karnataka, which is a part of NH4. The developments which will happen in the next quarter is we will be starting tolling on our Durg, Jaora Nayagaon and Belgaum-Dharwad. So this is all about, business update.. Our current order book is 3000 crores which is our unexecuted balance order book. And qualification wise I would like to state that Ashoka Buildcon, on standalone basis is getting qualified for Rs.27000 crores of NHAI project and also Rs.12000 crores state project where we are very much interested and well placed to bag projects in JV (joint venture). we have submitted qualifications for about Rs.80000 crores. So this is on the update on the business. I will hand over to Paresh, who will take you through the results.
- Paresh Mehta** Good afternoon again everybody. I will now present December 2010 quarter results vis-a-vis corresponding last year's quarter. The total consolidate income for quarter December '10 has gone up to 236 crores from 199 crores registering a growth of 19% over December 2009. Within that the consolidated construction revenue, after elimination, for December '10 has grown by 22%. The same, before elimination is 274 crores for December '10 against 241 crores over December '09 registering a growth of 14%. Our business at the second segment of toll revenue had grown by 20% that is from 41 crores for December '09 quarter to 50 crores for December '10. The major development is, the toll revenues has seen been addition of one project i.e. the Bhandara project

and another significant development was in two projects, namely Pune-Shirur and Nagar-Karmala there is a decrease in the toll revenue due to there being a temporary disturbance on toll collection for the month of December out of which Nagar-Karmala project has always started collecting Toll on 2nd February and we expect to start the Pune-Shirur project in a month's time. As far as EBITDA goes, EBITDA for December FY10 has grown up to 68 crores from 57 crores in the previous year, which is a growth of 19%. Interest cost has gone up by 45% to 16 crores in December '10 from 11 crores in December FY9 basically being contributed by Bhandara project where interest was till now being capitalized as the project was under construction but since October it is been charged to revenue, the impact of which is Rs. 8 crores. Depreciation had also gone by 41% to 24 crores in December '10 from 17 crores in December '09. This again is being contributed mainly due to capitalization of the Bhandara project, the quantum of which is 5 crores. Profit before tax has decreased to 27 crores in December '10 from 29 crores registering a decrease of 7% from December '09. Profit after tax for December '10 is at 16 crores and decreased by 24% from 21 crores in December '09. This is mainly due to two reasons, one is loss of toll revenue on the two projects as discussed previously and also major maintenance in four projects which had a cost of 12 crores. The profit after tax, post minority interest, for December, 10 has decreased to 17 crores as compared to 20 crores in December '09 registering a drop of 15% over December '09. I will now go to analysis for the results of the first nine months for December '10 compare to December '09. The total consolidated income for nine months December '10 has gone up to 699 crores from 523 crores registering a growth of 34% over December '09. Consolidate construction revenue after elimination up to December '10 is 497 crores compared to 344 crores of December '09 an increase of 44%. Before elimination construction revenue up to December '10 is 703 crores compared to 622 crores in December '09 an increase of 6%. Consolidate toll revenue for December '10 has registered growth of 11% to 137 crores from 123 crores. If we exclude the Bhandara toll which started in this quarter, the toll revenue for December '10 has increased by 5%. EBITDA for the nine months December '10 has gone up to 196 crores from 163 crores registering a 20% growth on December '09. Interest cost has also gone up 38% to 43 crores in December '10 from 31 crores in December '09 basically due to interest cost being charged to revenue for the Bhandara project which was put on stream. Depreciation also gone up by 20% to 59 crores in December '10 to 49 crores in December '09. Profit before tax has also grown up to 94 crores in December '10 to 82 crores registering of 15% '09. Profit after tax in December '10 is at 66 crores has increased by 10% from 60 crores in December '09. Post minority interest, the profit after tax for December '10 have increased to 63 crores as compared to 55 crores in December '09 registering a growth of 15% to about December '09. This is the summary of the financial for December, 10. Thank you very much.

Shirish Rane

Let us start the Q&A session.

Moderator

Thank you very much sir. Ladies and gentleman we will now begin with the question and answer session. One question is from the line of Ashish Shah from IDFC Securities, please go ahead.

Ashish Shah

Sir in your Bhandara project, how has been the experience of tolling vis-a- vis your estimates at the time of bidding other project?

- Paresh Mehta** At the time of bidding what we had estimated is approximately 10% below of what was expected.
- Ashish Shah** Okay. So could you share the numbers of the traffic or the toll collection—
- Paresh Mehta** The average daily collection for the last two month has been 11.7 lakhs per day.
- Ashish Shah** Okay. Sure, but you are saying its broadly about 10% lower than what you would expect?
- Paresh Mehta** Lower than what was expected.
- Ashish Shah** Okay. And how do you expect this to shape up going forward?
- Paresh Mehta** Now actually we will have to see the whole period to understand what is the traffic because hardly two months have passed and we need to see how it pans out. And the other incident here is that the toll being collected now is a pro-data for 72 kilometers whereas actually the project was 80 kilometers. This is because of some delinking of 8 kilometers of the project, that is also one of the reasons why the traffic is also down. But from a vehicle count part, that is 10% down. We will have to be finally judged only when we see one year cycle.
- Ashish Shah** Okay. So we do it and get compensated anything for the fact that the kilometer have been cut down, I mean, is there any way we can compensate for are loss of toll income?
- Paresh Mehta** What will happen in this 8 kilometers of road, we will be actually constructing the road after clearances are received from NHAI and concerned departments. The construction will be completed. Part of the related activities are already over and balance will be done.
- Ashish Shah** So you are saying the additional 8 km can also come.
- Paresh Mehta** Yeah, it's income will accrue.
- Ashish Shah** It's not necessary taken out of the project.
- Paresh Mehta** This is only in the view that because the permission were getting delayed we requested for delinking and they agreed to the delinking and the revenue was started as soon as the project COD was completed.
- Ashish Shah** Okay. So in what timeframe do you expect the full project to commence?
- Paresh Mehta** I expect around 12 months it would take to get it done.
- Ashish Shah** Okay. Sir, secondly you recently also got a six laning project. So when are you expecting to toll from that and what milestone you need to achieve before you start tolling?



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- Paresh Mehta** Basically we have already achieved financial closure for this project and we are awaiting notification. We expect to start toll collection by April.
- Ashish Shah** Okay have we mobilized the site or how is it?
- Paresh Mehta** As far as construction process is concerned , we have started already mobilization on the site. So it is already on, even both – for the both projects Sambalpur project as well as the Baragarh project.
- Ashish Shah** Right. And sir also any update on the status of construction of the Pimpalgaon Road Project?
- Paresh Mehta** The project is on stream and in sync with the milestone. We have already completed 24% of the work and work is going on smoothly. We did not have much of an accident.
- Ashish Shah** So what is the timeline for completion of this?
- Paresh Mehta** We expect to complete it by June 2012 - July 2012.
- Ashish Shah** July 2012. Okay sir slightly broader question. We been hearing a lot of, you know, some build of activity at NHAI so just wanted your view on how are things shaping up. What is the pipeline look like and what is the kind of bidding activity taking place?
- Satish Parakh** Yeah see, this is Satish Parakh. At NHAI this quarter and the next coming quarter we will see around 40 projects are put for bidding. They have done qualifications of moving 60 projects out of which 40 will see bidding in next quarter and half quarter, you can see in first quarter of next year.
- Ashish Shah** Okay but any significant pick up you expect before March, I mean, it is generally expected that by March one expect that there should be a very big pick up in ordering activity. So you believe that it will not be as early and it could go below...
- Satish Parakh** May be out of 40, 10-12, will be put for bidding before March. But rest may come in the first quarter of next year.
- Ashish Shah** Okay. So that was on the NHAI side. Now on the state side, is there anything you are looking at?
- Satish Parakh** State wise we are qualified for 12000 crores of projects. Maharashtra, Rajasthan basically two major projects in Madhya Pradesh. The size of projects in the state is relatively smaller. But in NHAI projects , we qualify for 20,000 crores on Ashoka Buildcon standalone basis . And, through joint ventures, we qualify for another 8,000. So, 40,000 crores of projects we will be getting qualified.
- Ashish Shah** Right is there...
- Satish Parakh** around 12,000 for state projects.

- Ashish Shah** Right. So on the state side how soon do we expect things to move. Or they are at very early stages and may be it will take time for anything to significant to come.
- Satish Parakh** Qualifications are already put in but they have not declared results. So qualification and bids are not pushed for bidding yet. May be next quarter we should see some bids to come in Maharashtra. In Madhya Pradesh, of course bids are on, but Rajasthan and Maharashtra are quite slow .
- Ashish Shah** Okay, so that is again likely to take time, it may not happen in a hurry?
- Satish Parakh** May not. Maharashtra I see may take some time because, new government being setting up new laws.
- Ashish Shah** Okay – okay. Right sir. Sir thanks a lot for your time.
- Moderator** Thank you. To ask a question, please enter * followed by 1. Our next question is from the line of Suraj Makhija from Reliance Life Insurance. Please go ahead.
- Suraj Makhija** Well hi sir. Sir my question if you could break up your total order book in terms of captive and what exactly are you doing from outside to a large extend?
- Satish Parakh** Basically our order book is around 3006 crores of which say around 20% is pertaining to power segment, that is distribution network. And balance is all captive investment project where more than 58% is done for subsidiaries and balance are projects done for associates.
- Suraj Makhija** Okay. Sir and what could be the debt on the balance sheet right now?
- Paresh Mehta** Pardon.
- Suraj Makhija** What would be your debt on the balance sheet?
- Paresh Mehta** Debt on the balance sheet is 1038 crores.
- Suraj Makhija** Okay. Sir and I mean, in the project that you bid or are qualified for bidding it seems, IRRs are going down because your earlier project IRRs was substantially higher to a large extent?
- Paresh Mehta** Competition is there so IRRs will not be as it was in the previous years. They will take a bit of strain but what happens is, we capture value at the project based IRR also as profits at the EPC level and then we have an edge over others by at least 4% to 5%.
- Suraj Makhija** Okay. Sir and my last question, this quarter you had some issues in term of toll collection and work going on in new project, so is the fourth quarter the quarter where you could see a base in terms of the number of projects which are ongoing and that would be, I mean, all the toll collection should be fine in this quarter to the large extent?

- Paresh Mehta** The projects where the toll collection was disturbed, of that one project has already started toll collection from 2nd February. So there is an aberration for 60 days and for the other projects we expect to start it by 15th March. So that much aberration would be there and there would be a total major maintenance expenditure of around 25 crores for this quarter too.....
- Suraj Makhija** Okay. Thank you someone much.
- Moderator** Thank you. Our next question is from the line of Roopa Shah from Prabhudas Lilladher. Please go ahead.
- Roopa Shah** Yeah sir I just wanted to ask what would be the balance equity contribution and how we would be funding going forward?
- Paresh Mehta** We approximately have a balance commitment of 450 crores in terms of our equity to be deployed.
- Roopa Shah** So that would be for all the projects newly...
- Paresh Mehta** All the projects as of date of which we would be funding them by internal resources because they have to be deployed over a period of two years and also by raising debt on certain of our old toll projects.
- Roopa Shah** Okay. And sir what would be equity till now which we have committed in all these projects?
- Paresh Mehta** Equity total committed is approximately around 1000 crores, total equity in all the projects put together.
- Roopa Shah** Okay and sir with the present days what would be the size of projects or what would be the number of projects we can bid and, we can put an equity, at what level we would be comfortable?
- Satish Parakh** See referring to the size of project we are qualified , up to by , say March end , , on standalone basis , we will be qualified for 2000 crores project. And with joint venture we can take up projects up to 4500 crores in which, at SPV level , we will have equity stake anywhere between 26% to 49%. And in standalone we normally like to have 100% equity stake. After bidding we may dilute or hive off equity to some extent. So we believe in doing more number of projects and...
- Roopa Shah** Okay sir thanks a lot that is from my side. Thanks.
- Moderator** Thank you. Our next question is from the line of Salil Desai from IDFC Securities. Please go ahead.
- Salil Desai** Sir we mentioned in the opening remarks sir, Jaora Nayagaon will start tolling next quarter you mean the quarter starting April or the current quarter, the January to March quarter?

- Satish Parakh** Quarter starting April.
- Salil Desai** Sir there seems to be slight delay in Jaora any specific reasons or have we started sectional tolling in entire road project is to be completed?
- Satish Parakh** Sectional tolling has started in Jaora. On One section , we have already started tolling. Another two sections are balance only because two ROBs which are delayed. Otherwise, the entire road is complete. But two of the ROBs, there is a significant delay because of change in policy by Railways. In this project we are trying to take extension in the construction as well as concession period from the MPRDC.
- Salil Desai** But the permission has now come through or that is also – does the RoB permissions have come?
- Satish Parakh** New designs have come in. Now they are going in for structural girders. They have already come in and we expect them to be completed by first quarter of next year.
- Salil Desai** Okay. And we will be declaring a COD only when all the three sections are over?
- Satish Parakh** You know, we have requested them for delinking as we do in NHAI, but for MPRDC this is the first of its kind. So they have not yet decided on delinking. If delinking happens then our tolling will start immediately.
- Salil Desai** Okay right. And sir in Durg how much construction activity which still be pending if you can share some percentage or ballpark numbers.
- Satish Parakh** We have already completed around 95% of the work. 5% balance also here we have issue with one flyover where the land acquisition was not done. So we have requested for delinking of that one kilometer in Rajnandgaon portion which is likely to be accepted by NHAI as a normal practice.
- Salil Desai** All right. And sir we have been hearing from general, some other contractors that in rural electrification payment delays and all are kind of happening more frequently now. Is that true as in how has been your experience both in terms of getting payments as well as inflow of new orders?
- Satish Parakh** Getting payments , we haven't seen any delay in the payments. Basically the project is structured in a way where we have to commission certain segments and then apply for payments. So there is no delay in payment due to finance not being available with MSEDCL or the processes. The expected process cycle is 90 days and payment does happen in 90 days.
- Salil Desai** All right. And how about sir, our new orders. How is the activity in terms of ordering?
- Satish Parakh** New orders that have been recently bagged is 156 crores from MSEDCL and we are expecting some new projects to now come for bidding.

- Salil Desai** Okay so that should happen this quarter itself is it or we probably see that it is getting pushed to next quarter or...
- Satish Parakh** I think on to next quarter.
- Salil Desai** Okay. All right sir thank you very much.
- Satish Parakh** Thank you.
- Moderator** Our next question is from the line of Sagar Parekh from Enam Holdings. Please go ahead.
- Sagar Parekh** Hello sir. Sir you had guided for BOT revenue projection for FY11 to be around 225 crores. When we met in November so what's the guidance now since there were some aberrations in BOT revenue so can you give us some ballpark number as to what can be revenue in FY 11?
- Paresh Mehta** Basically, I mean, when we gave a guidance of 225 crores , we were expecting the Durg project to be on line but due to the flyover issue, the collection would go into April. So if you don't consider that and whatever aberrations, I believe we may be in a position to be around 185 crores for margin.
- Sagar Parekh** So this loss of 40 crores is due to which projects, were there a problem in terms of flyover problem?
- Paresh Mehta** Typically the loss of revenue was in two projects in which the toll collection was disturbed , so that and also the Durg project. And delay in a bid of starting of the Belgaum-Dharwad project. We had also considered revenue of Belgaum Dharwad project, where the FC is done. We are awaiting notifications that was also delayed and contributed less revenue. But they basically do not impair the financials of the project, valuations of the project, the point is that the concession period typically get shifted. Valuation would remain intact and it is only cash flows getting later by two or three months.
- Sagar Parekh** Okay. And sir totally in all BOT projects put together how much equity have you put in as of now as on date?
- Paresh Mehta** As of date we have put in approximately, in the operational projects , we have put in 300 crores.
- Sagar Parekh** That was 280 cores as on November I think on that.
- Paresh Mehta** Yeah. And approximately to be invested is 474 cores.
- Sagar Parekh** 474 more.
- Paresh Mehta** Yeah around 474.

- Sagar Parekh** Would you be invested, okay .And what would be the guidance for BOT revenue for FY12 that you said last time was 400 crores. So would that be intact or they would be further delays in that as well?
- Paresh Mehta** That majorly should remain same except for when actually the dates for the Belgaum project, the Durg project and these two projects start really earning revenue. If they start on 1st April I think it will remain intact.
- Sagar Parekh** Okay. And now what it is the current order book I think last time your power distribution order was around 700 odd crores, 725 crores. So currently you said 20% comes from power, so about 600 odd crores are from power and you also received about 150 crores?
- Paresh Mehta** Yeah. So my net execution is from 700 crores it has gone down to 600 crores after adding new ones. So 256 crores total revenue have been booked.
- Sagar Parekh** Okay. And so another 150 crores would be done this quarter because since you said that 400 crores you were plan.....
- Paresh Mehta** Yeah, right. That should.
- Sagar Parekh** Okay. That's all from my side. Thank you.
- Moderator** Thank you. Our next question is from the line of Sandeep Bansal from UBS, please go ahead.
- Sandeep Bansal** Good afternoon sir. Thanks a lot for taking my question. What's the kind of a traffic growth on an average that we have experienced across the toll work project for the nine month period?
- Paresh Mehta** Nine months period has been generally in the range of 3% to 5%.
- Sandeep Bansal** Okay. And was there an effect due to Q3 being lower?
- Paresh Mehta** That is one reason . Also due to extended monsoons what happens is generally traffic movements start majorly only when monsoon gets subdued. So we should see a change in the percentage by March 2011.
- Sandeep Bansal** Okay. And sir, this would be ballpark in the range of 5% or....
- Paresh Mehta** Yeah. I believe it should come to 5%.
- Sandeep Bansal** Okay. And sir in terms of NHAI, two issues which I wanted you to address. One was have you seen any improvement in terms of land acquisition, etc., over the last one to two years vis-à-vis earlier? And the second was in terms of avoiding we always heard of NHAI getting a large number of

projects up for bidding do you think NHAI is geared to kind of award 40 odd projects in a timeframe of three to six months. What are your views over there?

Satish Parakh

Yeah. On the land acquisition issue , what NHAI is now typically doing is, they are acquiring 80% land even before the bidding. Acquiring means they do up to 3D which means all legal work is done before they put it for bidding. The only part they do not do is payment to the land owners. They do only after the award of the work to a concessioner. So land acquisition you have seen there has been a significant change in last one year. So they are very much geared up even at the time at which they are putting for land acquisition which is quite decentralized. So that way land acquisition is substantially resolved but balance 20% is the real portions which may delays the entire instruction schedules. Second question you had was on Qualification wise. we have already done for more than 50000 crores of project qualifications .. So they are just waiting for this land acquisitions and environmental clearances issues to be done so that they put the project for bid. So I am very much hopeful that around 40 projects we would see bidding in next three to six months.

Sandeep Bansal

Sir in your view what is the key issue which is kind of delaying this project or what activities, is it land acquisition, is it environmental clearance or is it lack of decision making at the end of NHAI the various issues that have come up in the recent times with regards to NHAI, what in your view is the key.

Satish Parakh

See now everything is streamlined to a great extent. Even land acquisition has been expedited to a great extent on the projects but as per their interim guidelines they have to have 80% clear land with them. So that is where the project bidding is delayed.

Sandeep Bansal

Okay. Thank you sir. Sir, just one last question if you can share with us at the time of bidding what are the ballpark or roughly equity IRRs that you kind of look at in any project?

Satish Parakh

In all bidding we look at 16% to 18% that is a normal range of equity and IRRs.

Sandeep Bansal

Okay. Thank you very much sir for answering my questions and all the best for the future. Thank you.

Satish Parakh

Okay. Thank you.

Moderator

Thank you. Our next question is from the line of Sagar Parekh from Enam Holdings, please go ahead.

Sagar Parekh

Yes. Just a follow-up question, on your power distribution side are you bidding for any of the project where you have bided currently there or...

Satish Parakh

Wherever r we have put in bid , all the results have been declared.



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- Sagar Parekh** Okay. So there are no further bid that you are looking for in the next two or three years or...
- Satish Parakh** See, once they put for the bidding and when the tenders come out, we will be bidding.
- Sagar Parekh** Okay. And what kind of margins do you planning to get for EPC business?
- Paresh Mehta** For the road business we look at generally to maintain EBITDA margins of 12% and for power business generally look around 11%.
- Sagar Parekh** Okay. Thank you.
- Moderator** Thank you. As there are no further questions I would now like to hand the phone over to Mr. Shirish Rane for closing comments.
- Shirish Rane** Thanks a lot everybody for participating in the first conference call of Ashoka Buildcon. We thank especially the management of Ashoka Buildcon for taking time out and participating in the conference call Thank you everybody.
- Satish Parakh** Thank you.
- Paresh Mehta** Thank you very much.
- Moderator** Thank you. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.