

# "Ashoka Buildcon Limited Q2 FY 2016 Results Conference Call"

November 09, 2015







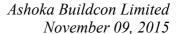
ANALYST: MR. NITIN BHASIN – AMBIT CAPITAL

MANAGEMENT: MR. SATISH PARAKH - MANAGING DIRECTOR -

ASHOKA BUILDCON LIMITED

MR. PARESH MEHTA - CHIEF FINANCIAL OFFICER -

ASHOKA BUILDCON LIMITED MR. GAURANG - STELLAR IR





**Moderator:** 

Ladies and gentlemen, good day and welcome to Ashoka Buildcon Q2 FY 2016 Results Conference Call, hosted by Ambit Capital. As a reminder, all participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Bhasin from Ambit Capital. Thank you and over to you Sir!

Nitin Bhasin:

Thanks. Good morning folks we got the management of Ashoka Buildcon with us. They have posted a very good order inflow in the last H1 and also surprising transaction on the real estate. Sir over to you to discuss the numbers as well as how do you see the next six months!

Satish Parakh:

Good morning everyone and a very warm welcome to our earnings call for Q2 FY 2016. I have with me, Mr. Paresh Mehta and our CFO and Stellar IR, our IR advisors. Before beginning the call I would like to wish happy Diwali to all of you and very happy Dhanteras.

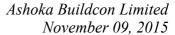
Let me start with industry update. Road sector is high on the radar of new government. The government intends to invite tenders worth 8,000 to 9,000 kilometers, out of which 50% will be on BOT and balance would be on EPC mode. Projects award we have already seen in H1 FY 2015 with NHAI awarding more than Rs. 40,000 Crores of project spreading over various states of around 4,000 kilometers.

The recent policy decision to allow 100% stake divestment after two years of completion of the project boards well with sector. Stakes however was capped earlier at 74%; easing stake sale will definitely help the sector.

Now coming to the developments in Ashoka. We have consistently received orders in last six, seven months. We have got orders worth Rs.2200 Crores in last fiscal. As mentioned earlier, we have been actively participating in bidding process in EPC as well as BOT. This year so far we have backed seven road projects with a total value of Rs.2242 Crores. Of this five are EPC contracts and two are BOT annuity projects. In August, we won the EPC contract for development for six laning of Eastern Peripheral Expressway in the state of Haryana and UP. The project value is Rs.789 Crores and Ashoka is amongst the five firms, which has backed the center's most ambitious project to decongest Delhi.

In September, we also won two annuity projects in the state of Karnataka. The first Rs.278 Crores project pertains to existing state highway Bagewadi-Saundatti and second Rs.249 Crores project pertain to existing highway Hungud-Muddebihal. We have also received letter of award from Mumbai JNPT Road Project, a SPV of NHAI for construction of road under JNPT phase 2 on EPC basis. The value of the same is Rs.414 Crores.

In October, we received Rs.277 Crores of EPC order for development of four-lane, Islampur Bypass in the state of West Bengal under NHDP phase 2. In May 2015, we received contract for





upgradation of road from Badami Bypass Junction and this is Rs.111 Crores. So with this the current order book is Rs.4444 Crores. Of this road projects are Rs.3083 Crores, which is 69% of our order book and Rs.1362 Crores as power T&D.

As mentioned earlier order book for roads is now with 70% of the order book, which is in line with our focus and preference for the roads. We have made international foray with EPC contract with \$38.1 million and this is from Housing Development Corporation of Maldives for development of road network in Hulhumale. The project is a 50:50 joint venture with Mohan Mutha Exports of Chennai.

In addition to Rs.4444 Crores, we have received the EPC contract of Rs.247 Crores of Maldives and we are L1 in a few of the projects.

Another key developments are reduction in interest cost; our average cost of debt has come down due to refinancing of Durg and Bhandara as well as rates cuts by RBI, some of which have been passed by the banks. We currently are also under negotiation for refinancing of balance projects.

Sanction of premium deferment of Dhankuni project during quarter, Dhankuni-Kharagpur project received a sanction under premium deferment scheme of NHAI. This will give a substantial relief to the project from a cash flow perspective.

On execution front, we currently have three projects under construction all of which are progressing as per schedule. The company has completed 91% work in Dhankuni-Kharagpur, 80% in Chennai ORR and 50% in KSHIP project.

On traffic growth, we have continued to witness consistent traffic growth over last five quarters. The traffic growth in various projects is in the range of 6% to 8%.

During the quarter, we monetized the parcel of our land, the sale value of the land under TDR is Rs.50.9 Crores. As you are aware, we have invested in parcels of land around some of the projects for better utilization of cash flow on the project. The monetization is line with our strategy to sell this parcel at an opportune time. We brought this parcel in 2010 and have sold it at a considerable premium to our investment. I would now request Mr. Paresh Mehta to take you on the results of Q2 FY 2016.

Paresh Mehta:

Thank you Sir. Good morning everybody and Deepavali greeting to everybody. The presentation for the results have already been updated on the website and I am sure you must have got an opportunity to have a look at it. I will now present the key results of the quarter ended September 30, 2015.

As mentioned by Mr. Parakh, I am very happy to share that this has been a very good year for us so far in terms of order wins. In roads we have received projects to the tune of Rs.2250 Crores. In addition to this, we have also received an EPC contract of Rs.247 Crores from Maldives Government and we are L1 in few projects.



On the total income, our consolidated total income including other incomes for Q2 FY 2016 is Rs.663 Crores as compared to Rs.437 Crores in Q2 FY 2015. Construction revenue is Rs.450 Crores compared to Rs.340 Crores in the corresponding previous year.

The toll revenue is Rs.162 Crores as compared to Rs.97 Crores in Q2 FY 2015 showing 67% growth being driven by the new project Dhankuni and Sambalpur project being added to the toll revenues because of capitalization.

During Q2 FY 2016, BOT division recorded a toll collection of Rs.240 Crores of which Rs.162 Crores is recognized as toll revenue and Rs.78 Crores is from associate companies. This includes toll collection in Katni project under High Court order, but not recognized as revenue.

As mentioned by Mr. Parakh, during this quarter we have revenue of Rs.50.9 Crores of account of sale of land and TDR wherein the profit is at Rs.44 Crores and tax outflow of Rs.9 Crores.

We have been colleting toll on all our projects, which are toll based projects in the portfolio except for certain annuities, which are yet to start, which is in projects of Chennai ORR, KSHIP and the two new projects, which are yet to take off.

Our EBITDA for Q2 FY 2016 is Rs.219 Crores compared to Rs.99 Crores in the corresponding quarter last year. The EBITDA in the Q2 FY 2016 includes Rs.44 Crores of profit generated from land and TDRs.

Interest cost for Q2 FY 2016 is Rs.111 Crores compared to Rs. 52 Crores for Q2 FY 2015. The increase in interest and depreciation expenses is mainly due to capitalization of Sambalpur project in October 2014 and Dhankuni project in March 2015.

On the balance sheet side, our consolidated net worth including minority interest was Rs.2365 Crores. Our net external debt was Rs.3815 Crores approximately leading to a debt equity ratio of 1.5 times.

The gross debt on the standalone basis was Rs.240 Crores, which comprises Rs.42 Crores of equipments loans, Rs.48 Crores of working capital loans and Rs.150 Crores of NCDs, raised in November 2014, which has to be paid in the September, October, or November 2016

The average cost of debt has gone down to 11.4%, a couple of our projects are already got refinanced and few projects are under negotiations and we expect to reduce this interest rates further by another 70 to 80 basis points.

Cash and bank balance is included in current asset stood at Rs.100 Crores as of September 30, 2015. Currently the QIP projects had been used to reduce working capital loans and invested accordingly. With this now we open the floor the question and answers. Thank you.



Moderator: Thank you very much. We will now begin with question and answer sessions. The first question

is from the line of Amit Sinha from Macquarie Capital. Please go ahead.

Amit Sinha: Good morning. Thanks for the opportunity. First of all congratulations for great order wins

during the quarter. Sir my first question is can you give us some details in terms of the annuity payment for the two BOT projects one and what is the quantum of road projects where you are

L1 right now?

Paresh Mehta: The two annuity projects, which we have won and where we have yet to sign the concession

agreement with the process of that. We have annuity projects of approximately Rs.70 Crores each in, for the project, each project Rs.70 Crores approximately, annual payment that is semi-annuity of around Rs.30 Crores to Rs.35 Crores. In one project it is around Rs.31 Crores and one project

Rs.35 Crores. What was the second part of question?

Amit Sinha: Second was you said you are L1 in few projects, do not want any detail, but what would be the

approximately kilometer where you would be L1, approximately kilometers of projects where

you will be L1?

**Paresh Mehta:** We are in the range of around Rs.350 odd Crores, Rs.450 odd Crores.

Amit Sinha: Rs.450 odd Crores, okay, these are NHAI projects, I mean?

Paresh Mehta: Yes.

Amit Sinha: Okay, secondly for Bhandara and Durg project, which are where the toll revision is based on

WPI, what was the toll revision and when was it effective, I am sorry?

Paresh Mehta: Toll revision in Bhandara and Durg was on September 1, 2015, which was to the tune of

approximately 2.3% and next toll revision comes in September 2016.

Amit Sinha: So what was the exact traffic growth in these two projects because the revenue growth has been

very strong?

**Paresh Mehta:** Yes, approximately 8% is what we are observing traffic growth for the projects.

Amit Sinha: Lastly in terms of the book value of land, which is left with the company, can you share that

number?

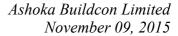
Paresh Mehta: We have approximately Rs.275 Crores of land bank still in our SPVs basically with Viva

Infrastructure and Ashoka Infraways. This is approximately to the tune of around 270 acres of

land at a value of Rs.275 Crores book value.

Amit Sinha: Okay and this land, which was sold during the quarter this is from which subsidiary of yours?

**Paresh Mehta:** This is from Viva Highways.





**Amit Sinha:** That is it from my side and happy Diwali to the management. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Arora from Emkay Global. Please go

ahead.

**Nitin Arora:** In terms of the tariff hike in the toll projects apart from Durg and Bhandara any other project

witnessed a tariff hike in this quarter Q2?

**Paresh Mehta:** We had, in Q2, so this is all in Q1, sorry Q2, except for these two there are none.

Nitin Arora: None were there, okay. Sir in terms of your second half performance of the construction revenue,

can you guide us a little bit because Dhankuni, Chennai and Keshav we are going very strong as well as in the power T&D, so what sort of revenue are we looking in the construction part for this year and in how much time do you see your new projects mobilization will come on stream and also if you can guide us a new project contribution to this year construction revenue, any number

of that sort?

Paresh Mehta: On the roads, approximately Rs.490 Crores of revenue for this half year and in power we have

done Rs.377 Crores, we expect, as indicated we expect to close our EPC revenue in the tune of around Rs.2000 Crores, Rs.2100 Crores in that range, so wherein roads will be approximately another Rs.450 to Rs.500 Crores and the balance would comes into road, in power it is around

Rs.250 to Rs.500 Crores, the road sector approximately another Rs.500 Crores.

Nitin Arora: So you are talking about FY 2016 revenue at Rs.2000 Crores plus in FY 2016?

Paresh Mehta: Yes.

Nitin Arora: Sir in terms of your new projects, which is your Eastern Peripheral, Mumbai JNPT, the Badami

and the Madhugiri project, where we stand in terms of our mobilization and how much

contribution you expect from these new order wins to come in this year?

Satish Parakh: Yes, these projects would, these basically being EPC project, they will start within two months

time.

**Nitin Arora:** So this guidance includes the execution of this new project?

Satish Parakh: Yes, but initially the execution costs are very low because it is on mobilization and earthwork

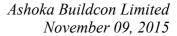
quantities, so value wise it is less, but progress wise it is significant.

Nitin Arora: All right and Sir, just last question from my end, can you give us, what is the equity requirement

left including the two new won projects in the company?

Paresh Mehta: Project size would be around say Crores, so we would typically have approximately Rs.95

Crores.





**Nitin Arora:** Fine Sir. Thank you very much for this.

**Paresh Mehta:** Percent of 600 Crores that is around Rs.180 Crores.

**Nitin Arora:** Rs.180 Crores you said for including both the annuity projects?

Paresh Mehta: Yes.

Nitin Arora: Okay Sir. Thank you Sir.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go

ahead.

Vibhor Singhal: Good morning Sir. Thanks for taking my questions and congratulations for great set of order

wins. Just to address further on the EPC topline that you mentioned that you are expecting from Rs.2000 to Rs.2100 Crores this does not include the Rs.50 Crores of revenue from the land sale

right?

Paresh Mehta: Can you repeat the question?

Satish Parakh: Yes, it does not include land.

Vibhor Singhal: Okay, so Rs.2000 to Rs.2500 Crores should be the pure EPC revenues that you mentioned.

Satish Parakh: Pure EPC.

Vibhor Singhal: Fair enough Sir and basically in which of these projects do you expect the construction, the

annuity projects I believe which we have won recently, the construction would take a bit of time because we will probably have to financially close those projects and then, so we can expect

revision only in FY 2016 to start on them?

Satish Parakh: Right annuity will start in FY 2016, all other EPC would start in H2.

Vibhor Singhal: Ditto for Eastern Peripheral Project also we expect to start in the fourth quarter itself?

Satish Parakh: Yes.

Vibhor Singhal: Sir, my next question is on the EBITDA margins for the EPC division, so if I remove the land

sale for this quarter, I think we have done pretty handsome around 15% to 16% EBITDA margins for the EPC segment in the first two quarters, do you expect these to continue for the remaining part or may be because the new projects that we will start construction on, so the

margins might come under a bit of pressure in the second half of the year?



Paresh Mehta: This basically due to commodity pricing, we have had this benefit of slightly higher traffic, in

fact 40% EBITDA margin including other income would be a reasonable number to consider for

EBITDA margin.

**Vibbor Singhal:** For the full year, for going ahead?

**Paresh Mehta:** Going ahead we expect around 40% EBITDA margin.

Vibhor Singhal: Sir I missed the equity required that you mentioned, the line was not audible, could you just...

Paresh Mehta: No, actually I just come back on that, this is Rs.600 Crores of project cost. There is a grant also,

so our net equity would be in the tune of around Rs.110 to Rs.120 Crores.

**Vibhor Singhal:** 100 to Rs.120 Crores?

Paresh Mehta: Yes, I said Rs.180, but it includes grant also, so if you leave away grant the net equity would be

around Rs.110 to Rs.120 Crores.

**Vibbor Singhal:** Out of the Rs.600 Crores, how much would be the grant component, if I can get that number?

Paresh Mehta: I would come back to you later.

Vibhor Singhal: Okay so Rs.100 to Rs.120 Crores would be the equity required and then you will have a grant

and the remaining part will be of course the debt that we intent to foresee. In the current ACL

portfolio, we do not have any equity requirement right?

Paresh Mehta: No we have fully funded.

Vibhor Singhal: Either in Sambalpur or any other, okay and Sir these two new projects, will they be a part of

ABL portfolio or the ACL portfolio?

Paresh Mehta: ABL.

**Vibbor Singhal:** So the SMB Macquarie investors will not have anything to do with these projects?

**Paresh Mehta:** Yes, because they are smaller size projects, so.

**Vibbor Singhal:** Fair enough Sir. Thanks a lot. I will come back in the queue if I have more questions.

Moderator: Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go

ahead.

Nitin Bhasin: Thanks a lot. Few questions, one was about the guidance that you are mentioning about Rs.200

Crores plus of EPC, if you look at the first half you done closer to about Rs.800 to Rs.850 Crores roughly the revenues. In the H2 for this to become roughly about 1.5 times of this, so do you



think if the roads or the T&D, which will drive the delta and which one or two projects you think are going to take us across Rs.2000 Crores because to cross the Rs.2000 we need to have started certain jobs, so just little bit more granular understanding on this will be appreciated?

Paresh Mehta:

We generally observe, the second half is generally in the range of 1.3 to 1.4 times of the previous quarter, in most of the year you will find, so that is how the trend is, now this definitely will be driven by road sector performance, higher performance and also in the power, so power also we have substantial order book to be executed and which will also will have a high traction, so I think 1.4 times in both would be reasonable, so both will keep on driving the revenues.

Nitin Bhasin:

Okay, in the first half, what amount of revenues came from T&D segment, first half in the EPC revenue excluding...?

Paresh Mehta:

Rs.380 Crores.

Nitin Bhasin:

Rs.380 Crores. Sir in this Maldives venture that you have announced is it like the beginning of your foray into international locations and why did you go to Maldives and how did you land up choosing this partner, if you could have some color on that?

Satish Parakh:

Yes, this you can say, our foray into international sector we started with a small job with partner who is already have working relations with Maldives government and this being a road work, pure road work, we could add value in the entire bidding process.

Nitin Bhasin:

But Sir Maldives being a small country, do you think repeat of more orders like this over there, are you planning to like mobilize equipments from India over there or you want to buy more equipments and put up there only?

Satish Parakh:

All the equipments will be mobilized from India for the period of execution and then they will come back.

Nitin Bhasin:

And how much time, is this execution Sir, Rs.125 Crores, Rs.130 Crores of topline?

Satish Parakh:

This is 18 months project.

or more?

Nitin Bhasin:

Similar jobs in Mauritius, in Sri Lanka, what are the other regions that you are looking at?

Satish Parakh:

We are looking at Africa, we are looking at Mauritius, Sri Lanka we have not yet ventured, but

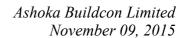
we are seriously looking at Africa and Mauritius.

Nitin Bhasin:

Okay and Sir, margin wise similar to what you are making in India, how like 15%, 16% or lesser

Satish Parakh:

Margins are little better than what we have in India.





Nitin Bhasin:

If I look at your margins are pretty much very strong right now, so you have been executing your own BOT jobs despite T&D orders execution margins are held through, so the new order that you have taken in EPC will they also be very similar margins and, because we hear a lot of competitive intensity, so then still 15%, 16% margins are very big number, so how should we understand sustainability of this margin?

Satish Parakh:

These margins in all EPC may not be same, will have 1% to 1.5% lesser EBITDA in pure EPC contracts.

Nitin Bhasin:

This eastern periphery job, one of the peers who has won a job, you says that site is already under progress, etc., etc., and about to mobilize, are you also witnessing similar sort of fast pacing of your works in eastern periphery?

Satish Parakh:

Eastern periphery we have started our mobilization, we have some initial hiccups, but I think after Diwali it will start in full swing.

Nitin Bhasin:

The last one is about the BOT margins, historically the margins are closer to about 60%, 65% traditionally some companies report about 80%, 85%, is it the function of only traffic be not there or is there something else in terms of you providing for major maintenance, etc., etc., so and can your 64% margin go up to 85% by when?

Paresh Mehta:

See our BOT margin, the EBITDA margins is after providing provisions for major maintenance at perspective, so from 64% EBITDA margin we would typically go to around 75% to 85% EBITDA margins in the span of six to seven years time. When traffic grows with a higher rate vis-à-vis the operational costs. We will have to typically see whether amortizing of the growth of traffic, but generally that is what we try to, we target in our morals to have that kind of, around 80% kind of EBITDA margins.

Nitin Bhasin:

So that should be visible in about next two to three years as most of the roads ramp up?

Paresh Mehta:

Around four to five years, I would say.

Nitin Bhasin:

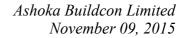
Four to five years, Sir when you also mentioned about refinancing how much lower can the interest rate go and new avenues of structuring, bond like structures for operational assets becoming viable?

Paresh Mehta:

So interest rate could go almost with a tune of around 10.1, 10.5, in the range of 10.1, 10.5 with the mix of bonds as well as terms loans. We are also looking at structures where we could bring it down to sub-tens, so we are working on three projects where we are trying to bring it in the range of 10% sub in the non-bond kind of a structure, but so that means, there could be a traction of around 1.5% at least in the next five to six months time on certain balance projects where we are still processing the refinance.

Nitin Bhasin:

So basically 110% for operational assets is possible right now?





**Paresh Mehta:** Yes, we have already in the process and we should be doing a refinance in that range, 9.8 kind of

structure.

Nitin Bhasin: Sir the last one on the real estate traction, you booked one and how clean is the management in

terms of liquidating all of this in the next 12 months, 18 months or 24 months, is that like a set time line for liquidation for development, etc., what is your preference of your own development

or own developmental of peer?

Paresh Mehta: No, there could be various structures where we could be monetizing and there is no specific

timelines that we have to do it, based on opportunity and based on good returns, we will definitely, the basic target is to capture my tax payments, MAT payments, which we have made

to capture them, so get it at the maximum value.

Nitin Bhasin: My question was will you get into real estate development of this land on your own or do you say

it is better to set it off to somebody who wanted to develop this and get out?

Paresh Mehta: Our intention would be, somebody sell it to somebody or let him do the whole activity of real

estate, we will be just monetizing our land portion.

**Nitin Bhasin:** Okay, thanks a lot Sir. That is enough.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from Elara Capital.

Please go ahead.

Adhidev C: Good morning Sir. Thanks for the opportunity. I just want to understand Sir, what is the order

intake target now for the full year for FY 2016?

Satish Parakh: Yes, going ahead we will be participating various bids and I expect another Rs.1500 Crores to

Rs.2000 Crores of orders.

Adhidev C: This excludes any international orders or also you are including those also?

Satish Parakh It is including. We are participating in international bidding to, but of course we are, majority

will be internal orders.

Adhidev C: Sir in qualitatively in the new bids whatever coming up the activity, which is going on, are you

seeing the intensity lessening or the same level of competition still remains in the bids?

Satish Parakh: No intensity is tapering down and we have seen now reasonable bidding coming.

Adhidev C: Qualitatively just on your BOT portfolio, now on the BOT revenues, could you give some color

on like versus your expectation have some projects performed better or worse than what you are

expecting and any specific reason in any project, why that would be?



Paresh Mehta:

On the traffic side, we are seeing generally 7% to 8% growth in the last half-year, which we believe should amortize for this year too. There are a couple of projects, which have higher growth rate like Jaora-Nayagaon and Indore-Allahabad, but otherwise around 7% to 8% is what we expecting for one year more and depending on growth which could be slightly higher to catch up with last two years of low growths.

Adhidev C:

Any qualitative factors like especially on Eastern India BOT portfolio, any qualitative factors where you said because why you are confident toll revenues will improve going forward?

Paresh Mehta:

We have seen a lot of mining activity released in the Eastern India, in Orissa state, so that would start amortizing on the road after even the industries respond to that mining relaxation and then the traction would be higher in the eastern side and then we will have traction on NH-6, which will increase our portfolio revenues because we have four projects on NH-6 which should then increase that.

Adhidev C:

That is all from my side. Best of luck, thank you.

**Moderator:** 

Thank you. The next question is from the line of Prateek Poddar from ICICI Prudential. Please go ahead.

Prateek Poddar:

Good afternoon Sir, just one question, I joined in a bit late, so I am not really sure whether this question was answered, could you just talk about how should we look at FY 2017 and may be FY 2018 EPC revenue growth?

Paresh Mehta:

Based on the order book which we have been able to ramp up in this last six months, we believe that we will definitely touch a 20%, 25% growth in the next two years and with the positivity in the sector as well as with international contracts being looked at, I think so we will maintain this 20%, 25% top line growth on the EPC side.

Prateek Poddar:

So this is after Rs.2000 Crores kind of topline in FY 2016, you are guiding for Rs.25?

Paresh Mehta:

Yes, this is based on 2016.

Prateek Poddar:

Is it fair to assume there would be some dip in margins considering that this is kind of, commodity prices are at their historic lows and they might bounce back a bit, so these are kind of peakish margins?

Paresh Mehta:

The new projects have been bidded at 11.5 kind of benchmark for our EPC contracts, so going forward probably there will be dip of around 1%, 1.5% in the EBITDA margins, which would be in line with whatever general working is there, so if you are looking at 15% because of commodity price then new set of projects will come at the revised prices. I think so, 13.5% to 14% is EBITDA margin, which we will maintain, try to maintain that.

Prateek Poddar:

Sir just one question on Jaora-Nayagaon, what is explaining such high traffic growth over there?



Paresh Mehta: This is a combination of the area as well as NH-3, where NH-3 development was stalled for

sometime north of NH-3, so north NH-3 traffic, so that traction available in Jaora-Nayagaon.

**Prateek Poddar:** Is this a shifting of traffic?

Paresh Mehta: This could be partial shifting of traffic, which may continue to remain, it all depends because

technically this road could be shorter vis-à-vis Delhi, but it may not cater to certain towns, so believe that this traction will more than 60%, 70% would remain and balance could

transfer after two years if NH-3 improves.

**Prateek Poddar:** Sir also if could comment a bit about Dhankuni Kharagpur why is that seeing?

Paresh Mehta: Dhankuni Kharagpur is a typical 6% odd growth, which is, I think so regular growth, I mean

there is nothing very great traction happening at this point of time, if NH-3 or this Orissa mining belt improves and there is a lot of movement east and west both sides then probably it will

improve, otherwise I think this will remain for sometime in this range.

**Prateek Poddar:** Thank you so much Sir for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Nitin Idnani from Axis Capital. Please go ahead.

Rajshri: This is Rajshri here from Axis Capital. Sir first of all congratulations on a good quarter. Most of

my questions has been answered, but there are just two left, so firstly on this Dhankuni-Kharagpur, about the premium deferment, so if you could give a little more detail on the exact mechanism of the premium deferment especially regarding the escalation how, at what rate will

be the escalation for this deferment that is question one?

Paresh Mehta: We have got deferment of the Dhankuni project from July onwards, so the first year, the total

because we have already paid up to, by the time the permission came, we had paid up to June. Now the escalation, this is basically a conversion of this premium amount into loan, so the escalation clauses would continue. They may go up by 5% every year, so if this year total premium payout would cross Rs.142 Crores from 17 onwards, it will continue to go by 5%, the

sanctioned is around Rs.135 Crores, but we will be in a position to defer around 75% of it only

total premium which we could be able to defer based on the forecasting and the permission, sanction given by NHAI is around Rs.1089 Crores over the span of around seven years, so this,

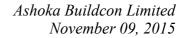
whatever shortfall is there in the cash flow after servicing of debt, but before servicing of

premium would be convert into loan and whenever there is cash surplus with the company we

will be used to repay this loan amount on a priority basis.

**Rajshri:** I think that clarifies my question.

**Paresh Mehta:** This would carry an interest cost of at present 9.75%.





Rajshri:

Thanks a lot for this and the other question I have is regarding if I look at your toll collection number, so most of the projects are fine, but if I look at three projects that is Dewas, Katni and Ahmednagar–Aurangabad, so these three projects have reported some degrowth both on a year-on-year and quarter-on-quarter basis, so if you can just mention what are the reasons for this and can we expect it to grow going forward?

Paresh Mehta:

See if you go to Ahmednagar–Aurangabad this is basically due to dictum by the state government where cars and state transport buses have been exempted for paying toll, though it is showing a negative, this will be compensated by the government in due course, so this will be taken care of. As far as Dewas is concerned toll collection was stopped on August 24 on this project, so that is more of a stoppage of the project and on Katni bypass, there is a just, more of economic activity and seasonally fit.

**Rajshri:** Thank you Sir. That is all from my side. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Aditya Mongya from Kotak Securities. Please

go ahead.

Aditya Mongya: Good afternoon gentlemen and congratulation for a very strong set of numbers this time around.

The questions which I had the first one is related to the tax rate incrementally for EPC business. So what I wanted to ask you that will majority of revenue is coming from EPC road projects from NHAI? You are talking about slightly lower EBITDA margins, just thought I will check up

whether tax rate would also be lower considering these are government projects?

Paresh Mehta: No there is no impact on the EPC. The EPC business is totally on the standalone. This is subject

to a tax of around 33% so that will continue as it is, so there would not be a change in the

taxation structure.

Aditya Mongya: Some of your peers who essentially take 80 (IA) benefits on the construction EPC contracts from

NHAI at least that is a sense, which I got from them, is that not been available for us to take also?

**Paresh Mehta:** No it is not available.

Aditya Mongya: Second thing is on the projects, which we recently gotten commissioned, the growth in traffic

still is in the, let us say, 3% to 5% range only, due to envisage that number kind of picking up soon enough or will it then be a function of let us say uptick in mining activity, which should be

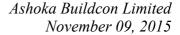
slightly more longer term.

Paresh Mehta: Yes, it would be more on that side and certain when we have 100% growth; you are talking of

Sambalpur right?

Aditya Mongya: Broadly I am talking about Sambalpur and may be Dhankuni also, and Dhankuni as per at least

my acquisition was till the 4% kind of traffic growth, correct me if I am wrong?





Paresh Mehta:

4.5% to 5%.

Aditya Mongya:

These are projects that recently gotten commissioned and thus the expectation may be of certain traffic, which was not getting let us say toll now reporting a numbers and hence traffic growth being slightly stronger?

Paresh Mehta:

Dhankuni is already a matured project from a traffic perspective though it has come into the revenue side only from April 1 onwards, so I think Sambalpur is a project to be looked at which is started revenue only after October and we have to yet complete 100% of the project, only 83% is completed, so that traction will happen may be, should happen anytime because already recommendation at NHAI has placed for completion of this project, so that traction will happen and then another traction would be on due to mining and other effects, which would take another three to four months time I believe, first quarter showed some additional traction on account of mining.

Aditya Mongya:

Okay, on the T&D share it appears almost half of your revenues are flowing in through the T&D segment. Let us say second quarter would be such a quarter, are the margins broadly similar to what you are looking on the BOT side, on the other business let us say the roads business, is it similar margins?

Paresh Mehta:

No, EBITDA margins on power in the range of 10.5% slightly lower by almost 1, 1.5% vis-à-vis, EPC, BOT projects.

Aditya Mongya:

Okay, the other question was on the EPC side of thing, now the company has won almost Rs.2500 Crores of projects in all, 2500 Crores till now and you are talking about another, you are talking about another Rs.1500 to Rs.2000 Crores additionally. This Rs.4000 to Rs.4500 Crores number that you are looking for this year do you kind of envisage at these level incrementally also, if there is enough feasibility for you to kind of make that call?

Satish Parakh:

See already we are L1 in around Rs.450 Crores of projects, so we expect to get this LOI in a month or so and getting another Rs.1500 Crores is what we are targeting and we feel with the given opportunity in the market will be able to back this at a reasonable rate.

Aditya Mongya:

This rate should basically continue, so basically FY 2016 would be a strong year and incrementally also there should be enough feasibility on the road side to kind of make us believe that we can growth on this number?

Satish Parakh:

Yes definitely.

Aditya Mongya:

Thank you Sir. Those were the questions from my side.

**Moderator:** 

Thank you. The next question is from the line of Prateek Poddar from ICICI Prudential. Please go ahead.





Prateek Poddar:

Sir just wanted to understand business economics on the international order side, so one is obviously would you deploy the assets, how would the asset deployment take place and what are the margins vis-à-vis if I were to compare them to say India base business and also asset terms if you can comment about them and tax rate?

Paresh Mehta:

Now this is a kind of an export business for the joint venture which we have and it could be typically funded by EXIM, of course it would be EXIM funded to the Maldives government, now as far as asset is concerned typically what we will be doing is we will be sending our machineries to the country to execute, which will be returned back, so this is the basic structure, so our contract is only to construct a road of around 15 kilometers of around Rs.240 Crores and the margins would definitely be higher than the margins in the EPC road, which we have in India, which we will probably communicate as we actually pan it out.

Prateek Poddar:

So what about the tax rates?

Paresh Mehta:

Tax rates would be typically, it would be, whatever Indian taxation would be happening on that, would be there, but you would get certain benefits on, export benefits on licensing and other rebates.

Prateek Poddar:

So in India I think if you execute EPC road projects people take the benefit of 80 (IA), is that applicable to this, this would not be applicable?

Paresh Mehta:

This would not be applicable.

Prateek Poddar:

So essentially the tax rate would be higher versus if you were to construct a similar kind of project in India only for the tax rate part?

Paresh Mehta:

No it would be similar, so what will happen is, probably there will be a tax rate at Maldives, which due to the DTA, double taxation, there will be no additional tax, which is paid in Maldives, you get a set up in India and we will not have any additional tax than the regular tax which is applicable in India.

Prateek Poddar:

Sir I am sorry I just missed on the margins part, you mentioned that the margins would be similar?

Paresh Mehta:

It would be better. We will communicate as and when we start executing.

Prateek Poddar:

And the billing is in dollars or how is the billing, what is the current?

Paresh Mehta:

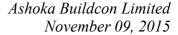
Dollars, so it is an export for us, it would be in dollars.

Prateek Poddar:

So rupee depreciation helps you to that extent?

Paresh Mehta:

Rupee would demand because cash payment, really I do not we have to look for a long term.





Prateek Poddar: Okay. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Achint Bhagat from Ambit Capital. Please go

ahead.

Achint Bhagat: Good afternoon. Just couple of questions from my side. Sir firstly I wanted to check on your

standalone business, the inventory has increased significantly to about Rs.670 Crores from about

Rs.460 Crores in the last year, as on March so what explains this?

Paresh Mehta: This is mainly being contributed due to power projects where the inventory gets piled up and gets

paid up after the particular time, so we have started projects on the Tamil Nadu Government and the Bihar Government where inventory piles up, though payment is received, whatever material inventory has been piled up, there is a payment receipt of almost 60% from the Bihar contract, so from that perspective, there is rise in inventory, but accordingly there is funding provision also in

that.

Achint Bhagat: Sir, overall the charge conversion cycle for the company will not deteriorate because of higher

execution of power projects, am I right to conclude that?

Paresh Mehta: It would be slightly, there will be working capital would be definitely higher vis-à-vis any road

project, but I think so we have already factored that as a cost and as well the funding provisions

for it.

Achint Bhagat: Sir secondly wanted your comment on media article that the hybrid annuity model contract with

NHAI invited has not found material interest on the developers, I think some it is some project Himachal Pradesh, so what is your sense on that Sir, have you been bidding for this contracts,

why is it not been finding interest of the developers?

Paresh Mehta: The annuity hybrid no bidding has till date happened on the annuity hybrid, they are slightly

tweaking certain of the provisions of the model based on the responses by the bidders, potential bidders, so the first set of bidding is expected to happen in this month, but we will have to wait

and see it.

Achint Bhagat: Sir the last question, what is the amount of capex that you need to incur the standalone business

for the next couple of years to execute the order book, increment?

**Paresh Mehta:** I did not follow, what is the kind of assets?

Achint Bhagat: Sir the standalone capex that you will have to do for construction equipment for the order book

that you have right now for the next couple of years, what is the capex that you need to incur?

Paresh Mehta: Generally Rs.35 Crores to Rs.40 Crores of investment every year would be sufficient to take care

of, the increase in order book continuing ahead also even if you take up another Rs.2000 order

book in this nature, it would be sufficient to take care by another addition of around Rs.30 to





Rs.40 Crores every year. This is to take care of new order book as well as substitution for old

assets.

**Achint Bhagat:** Thank you. These are my questions. Thanks a lot.

Moderator: Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go

ahead.

Nimit Shah: Good afternoon Sir. Most of my questions have been answered. Sir on two projects, Sambalpur

and Dhankuni, what is the equity, which we have already invested out of the total requirement?

**Paresh Mehta:** Total 100% equity has been invested, so there is nothing more to be invested.

Nimit Shah: Sir in Sambalpur if I see your balance sheet it shows an investment of Rs.156 Crores including

Rs.153 Crores from loans and advances, so the total equity requirement was around Rs.330

Crores if I am not wrong?

**Paresh Mehta:** Yes that is true.

**Nimit Shah:** So where it the other Rs.150 Crores, it is in the loans?

Paresh Mehta: It would be investments, may be we can come back on that, in Sambalpur it is in the form of

preference shares, so may be I will come back to you on that.

Nimit Shah: So if I see your annual update of FY 2015, which shows a Rs.3 Crores of equity share capital and

Rs.153 Crores as the unsecured loans, so I was just wondering where is the balance Rs.150 Crores, which is getting reflected either as a loans and advances or some other place and similarly on Dhankuni also, I think FY 2015 numbers on the share capital and loans and

advances if you can help me to look at because the total equity is around Rs.460 Crores?

Paresh Mehta: I will find another item in reserves and surplus, which has got premium, share premium account,

in Sambalpur it is around Rs.211 Crores.

Nimit Shah: In Sambalpur?

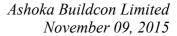
Paresh Mehta: Yes, so that you will find it in the reserves surplus breakup.

Nimit Shah: Yes, Rs.165 Crores is in FY 2015?

Paresh Mehta: No, in FY 2015.

Nimit Shah: FY 2014 it is Rs.211 Crores.

Paresh Mehta: Yes.





**Nimit Shah:** In FY 2015, it is around Rs.165 Crores, is it same?

**Paresh Mehta:** I think so you are looking at the net number.

Nimit Shah: Correct, net number, yes.

**Paresh Mehta:** The total premium is Rs.218 Crores as far as the equity is concerned Rs.211 Crores.

Nimit Shah: Okay, so this Rs.332 Crores includes?

Paresh Mehta: Does not include, Rs.6 Crores of equity capital, wherein Rs.11 Crores are premium on the same

and the loan.

**Nimit Shah:** So the premium is the profit?

Paresh Mehta: No, premium is not the profit. Premium is the share, they have been issued at a premium,

basically premium amount.

Nimit Shah: The premium amount, correct.

**Paresh Mehta:** We should have issued at the face but we have issued at a premium.

Nimit Shah: Okay, so that would be the similar case in case of Dhankuni also.

Paresh Mehta: Same.

Nimit Shah: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go

ahead.

Ashish Shah: Good afternoon. Sir on the Dhankuni Kharagpur project, I noticed that the progress of

construction has virtually remain the same from Q1 to Q2 at about 91%, so what is really

impeding the progress there?

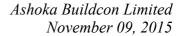
Paresh Mehta: That is the reason we capitalized the project in March because most of the available fronts were

completed and put to use, so whatever is left out in account of service close to be done, which is approximately 7% to 8%. So this would be as soon as land is made available we would complete it in three to four months time, so this is typically going slow as of date because the front is not available, so otherwise it does not really impact the project because we are connecting 100% of

the revenues and financials are okay, only the investment has not yet happened, profits are okay.

**Ashish Shah:** Again on the premium rescheduling for this project, can you give some numbers of the next four

or five years, how much amount is going to be deferred, I mean you gave the number for 10 year





period, seven year period, but is it a dynamic number based on a cash flows or the numbers are frozen?

Paresh Mehta:

It is a dynamic number, so I think it is around Rs.135 Crores for this year, Rs.140 odd Crores for the next year then it started reducing Rs.95 Crores and Rs.75 Crores and one more Rs.100 Crores, so based on the cash flows and major maintenance, it is changing and then they have arrived at from base on their model, we give a model and they link it to their model and arrive at a scheduling, premium scheduling pattern. In the initial four years, it would be to the tune of around Rs.130 Crores every year approximately.

**Ashish Shah:** 

Sir regarding the Maldives project which is the agency, which is funding this project, I mean how secured are we on getting a money in time, I know it is a small, relatively small project for us, but still, what is the security mechanism for payment?

Paresh Mehta:

For us it is EPC contract for the Housing Development Corporation of Maldives. Now the debt is being tied up with the help of EXIM to Maldives, which is to the tune of 85%, 15% will be released by the government of Maldives as upfront mobilization advance basically, so from that perspective we would be typically secured, by the time they get the debt tied up we would have 15% as a mobilization advance and once debt is tied up then I think so EXIM Bank does not have problem of releasing money.

Ashish Shah:

Sir lastly on the KSHIP project, by when are we expecting the commissioning of KSHIP and Chennai ORR both actually?

Paresh Mehta:

We are targeting by April 2016 should be completing both these projects.

Ashish Shah:

Both of them, right and Sir in terms of refinancing of the operational project, which are the next projects in line according to you after Durg and Bhandara?

Paresh Mehta:

We have Jaora-Nayagaon coming up very shortly, we have Belgaum-Dharwad we are targeting then we have these other two Sambalpur and Dhankuni projects will be take up in the next three to four months time and the reset dates also will be also closer.

Ashish Shah:

And we expect that the interest rates in this project can go down about 1.5 percentage points?

Paresh Mehta:

Correct.

**Ashish Shah:** 

Thank you Sir.

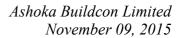
**Moderator:** 

Thank you. The next question is from the line of Nitin Arora from Emkay Global. Please go ahead

Nitin Arora:

Sir in terms of Sambalpur when it gets fully commissioned, what kind of toll collection we are

looking at?





**Paresh Mehta:** We are looking at almost 15% additional, 20% additional revenue growth on the existing at least.

Nitin Arora: I am asking this question again about this Maldives foray, can you explain us in terms of what is

the rational right now going for an overseas foray especially company like us more or less being conservative in terms of testing new avenues, so can you explain us in some three, four parameters that compelled you to go abroad and especially you are talking also about Africa,

where Chinese EPC players have also been very aggressive, so that would be helpful Sir?

Satish Parakh: Historically, if you see we have entered into new segments with small projects and once we

established then we slowly develop this independent verticals, even power T&D today we have a very strong vertical, so similarly our, this international vertical would be an independent development, which we will develop step by step, so we started with a small project and Africa

also will start in the areas where we are able to comfortably work and get comfortable margins.

**Nitin Arora:** So Africa somewhere we are also start bidding for power T&D as well?

**Satish Parakh:** If we get opportunity there is no harm in looking at power T&D also.

Nitin Arora: Considering your international foray what sort of capex you have envisaged in the next two

years, if we go a little on the higher side in terms of order intake there?

Satish Parakh: I do not see much of capex requirement is going up, Rs.30 to Rs.40 Crores is what we have

planned for our machinery, which will take care of our international as well as domestic.

Nitin Arora: Sir apart from machinery are we going to set up our offices also there, can you highlight some

point on that as well, I mean as far as the manpower we will be sourcing from there itself, but apart from machinery will be setting up our offices or will be joint venture guys who will be

setting up the offices and not my manpower would be enough there?

Satish Parakh: See my joint venture partners already have an office there, so we will not have any additional

cost in setting up office or any other setup and manpower whatever required for execution will

always go from India.

**Nitin Arora:** Thank you very much for this.

**Moderator:** Thank you. The next question is from the line of Anupam Gupta from IIFL. Please go ahead.

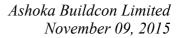
Anupam Gupta: Good afternoon Sir. Just a couple of questions, first on the two new annuity project, which you

have won, so what is the concession period for these two projects?

Satish Parakh: Construction period for two these projects is two years.

Anupam Gupta: And the concession period, the overall concession period?

**Satish Parakh:** Concession period 10 years.





**Anupam Gupta:** 10 years and which includes the two year construction?

Satish Parakh: Right.

Anupam Gupta: Just a second thing, are you also looking at the stuck projects, taking up the stuck projects or that

is completely off for us?

**Satish Parakh:** We have not followed your question.

Anupam Gupta: There are multiple stuck projects, which are not moving because of lack of financing from the

existing developers where NHAI has allowed for exit for guys, if the new guys can come in and lenders and the old developers take a haircut, so are we looking at such projects or we are not

interested in those?

**Satish Parakh:** We are not looking at any of such projects.

**Anupam Gupta:** Thanks a lot Sir. Thank you.

Moderator: Thank you. The next question is from the line of Pervez Akhtar from Edelweiss. Please go ahead.

Pervez Akhtar: Good afternoon Sir and congrats for good set of numbers, I had only one question, I mean with a

larger proportion of EPC order in an order book we see the working capital in our standalone

business increasing as we go ahead?

Paresh Mehta: See, they will increase if the revenues increase substantially, but we will, because of, we again

shift back to the road sectors, so we believe that this range of working capital, which used to have around 250, 260 would be normal, today of course we have all our working capital utilization is low because we have equity money, so accordingly working capital will marginally increase on a

totality business, but fund flow will be based on funds are required for projects.

**Pervez Akhtar:** Sir in terms of future project bidding, is there a number that we have in terms of BOT projects,

when is that, that is a minimum that we are targeting or we agnostic towards EPC or BOT both?

Paresh Mehta: We are agnostic towards BOT or EPC because we need to, we are looking at good EPC business,

on the project size we will try to fortify the portfolio, which we have under ACL as and when a

good opportunity does come.

**Pervez Akhtar:** So are we open to inorganic growth opportunity in ACL?

Paresh Mehta: No typically at this date we have not at all opened to inorganic growth, so we are looking at

bided projects, if any good projects come in.

**Pervez Akhtar:** That is it from my side. Thank you and Best for luck for the future.



Moderator: Thank you. As there are no further questions, I would now like to hand the over to Mr. Nitin

Bhasin for closing comments.

Nitin Bhasin: I thank all the participants for coming on this call and any other queries if you have any could

always be addressed by us on a one to one basis where the presentation already includes our

contact details. So thank you all and wish you happy Diwali again. Thank you.

Moderator: Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us.

You may now disconnect your line.