"Ashoka Buildcon Limited
Q4 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Ashoka Buildcon Limited Q4 FY2018 Results Conference Call, hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta from IIFL Capital Limited. Thank you and over to you Sir!

Anupam Gupta: Thanks Lizaan and welcome everyone to the Q4 Conference Call for Ashoka Buildcon Limited. From the management, we have Mr. Satish Parakh, Managing Director as well as Mr. Paresh Mehta, Chief Financial Officer. Over to you Sir for the opening remarks and then we can start the Q&A as well.

Satish Parakh: Thank you Anupam. Good afternoon everyone. On behalf of Ashoka Buildcon, I welcome all the participants on our earnings call for FY2018. I have with me CFO, Mr. Paresh Mehta and our IR Advisors Stellar Investor Relations.

Let me start with sharing the enthusiasm we are witnessing with significant order intake in last few months. I am very happy to share that our patience has paid off and in last three months we could do five hybrid annuity projects with total bid project cost of Rs.5539 Crores with an EPC value of Rs.4212 Crores. The EPC road projects with total contract value of Rs.1473 Crores and Power T&D EPC projects, the total contract value of Rs.826 Crores.

Let me touch upon brief on each order and project we have won. The first one is Ashoka Ankleshwar-Manubar Expressway. It is in equivalent project in Gujarat with build project cost of Rs.1687 Crores with a length of 13 kilometers and this is an eight lane express highway. Second project is Mallasandra Karadi and it is a four-lane project in Karnataka with a build project of Rs.917 Crores. The third one is Karadi Banwara, this is consecutive project to the earlier project and it is also four-lane project in the state of Karnataka with the build project also Rs.1219 Crores. Then we have Belgaum Khanapur, which is also four-lane project in the state of Karnataka again and it is Rs.866 Crores. Last we have Ashoka Khiaratunda, Barwa Adda road project which is a six lane project in the state of Jharkhand with a bid project cost of Rs.860 Crores.

Our road EPC projects include an aggregate of Rs.448 Crores towards upgradation of Jalgaon-Bhadgaon two lane project, two lane with paved shoulders and Bhadgaon-Jalgaon project which is NH-753 in state of Maharashtra then also an aggregate of Rs.1025 Crores of various projects under TOT.

Our order backlog is of March 31, 2018 is Rs.5849 Crores. Road projects contributed Rs.4256 Crores, which is 73% of the total balance order book, and Power T&D contributes around

Rs.1593 Crores. Among the road project order book EPC projects were to be to the tune of Rs.2019 Crores and the rest is BOT projects of Rs.2237 Crores.

As mentioned earlier, we have won project post April 1, 2018 of around Rs.7837 Crores, which will increase our total order book of Rs.5849 Crores to Rs.11912 Crores. After taking in all these projects our entire balance order book as we open on March end that is April to be Rs.11912 Crores; however, some of the EPC order are yet to be placed for HAM projects from SPVs to ABL.

Looking at the government's focus on the road projects, we believe ordering activity will continue and we expect a strong intake in the current financial year as well. We are witnessing strong execution on our EPC project, which have recorded robust revenue growth of around 22% in FY18. We are happy to share that we have completed Eastern Peripheral project in record time which has recently been inaugurated by Honorable Prime Minister. With current order backlog and looking at the average execution of the project, we expect to achieve revenue growth of more than 40% for the next couple of years.

Now the other important developments in the company; company has received arbitration award for Pune-Shirur Project in the state of Maharashtra in Ashoka Infrastructures Limited of the tune of Rs.383.8 Crores. Also we have received arbitration award in terms of 1384 toll days and Rs.37 Crores of arbitration in Dewas bypass. We have also signed a settlement agreement with NHAI for arbitration award of NHAI of Chittorgarh project, which is Rs.22.5 Crores, which we will be receiving, may be within one month. In Katni, we have received high court order confirming extension of concession period by five years.

Toll collection on operating projects - toll revenues grew by 15% year-on-year during this quarter. We have started receiving annuity payments of Chennai ORR and Mudhol Nipani projects. During the year, we have declared total dividend of 32% that is Rs.1.6 per equity share of face value of Rs.5. Further I am very happy to share that the board has recommended a bonus of 1:2. That is all from my side, I would now request Mr. Paresh Mehta to present the results of FY2018.

Paresh Mehta: Good afternoon everyone. I am sure you must have gone through the result presentation and media release uploaded on stock exchanges and the company website. I would now present the results for the FY2018. Standalone results, total income including other income for FY2018 is Rs.2546 Crores as compared to Rs.2085 Crores in FY2017; we have witnessed the strong execution during the years on our EPC projects resulting to 22% Y-on-Y growth.

Looking at our order backlog and the execution period for each project as Mr. Parakh has said we expect a strong execution momentum to continue going forward as well. EBITDA for FY2018 was at Rs.391 Crores as compared to Rs.315 Crores in the corresponding quarter last year. The EBITDA margin for the year is at 15.4%. The company reported a net profit of Rs.237 Crores during the year as compared to Rs.176 Crores in FY2017 witnessing a growth of 35%.

Now let me touch a bit on the significant accounting treatment of the CCDs, which we have considered in our financials with effect from March 2018 with restatement of the previous two years. As per Ind-AS this FY2018 standalone as well as consolidated financial numbers were impacted due to the accounting treatment of CCD, SBI Macquarie. SBI Macquarie had invested Rs.800 Crores in Ashoka Concession Limited subsidiary of Ashoka Buildcon for a 34% stake in ACL. This investment was made subscribing to CCDs. At that time of investment, two conditions were agreed. First SBI Macquarie stake will increase from 34% to 39% on a pro-rata basis based on the performance of Sambalpur traffic numbers. These traffic numbers could not stack up because of mining ban and effectively Macquarie stake have now increased to 39%; however, the effect of this change is yet to happen in equity structure of ACL. Therefore as per Ind-AS this obligation is recorded in ACL standalone financial this year at its fair value of Rs.174 Crores. This accounting has resulted in provision of Rs.20 Crores in FY2018 and Rs.17 Crores in FY2017 in the P&L statement and on the balance sheet side under current liabilities of Rs.174 Crores created towards obligation towards investors in subsidiary.

The second condition we had agreed for a 12% return on their investment. This obligation has affected consolidated financials of the company. Though we did not have any obligations for repayment of the CCDs and any shortfall in the return will be compensated through adjustment of equity stake in ACL, as per Ind-AS CCDs with assured return are recognized as a debt instrument. Hence in the consolidated financials it was recorded as financial liability at its fair value of Rs.1359 Crores. This accounting has resulted in a provision of Rs.174 Crores in FY2018 and Rs.118 Crores in FY2017 in consolidated P&L statement and on the balance sheet as current liabilities of Rs.1359 Crores created towards obligation towards investors in subsidiary and effectively reduced from the retained earnings. This is the main change in accounting, which has impacted the networth marginally of the standalone and of the consolidated financial. Please note that these are non-cash accounting entries and will be reversed when SBI Macquarie converts the CCD into equity.

Consolidated debt at present is Rs.4744 Crores of which project debt is Rs.4635 Crores. The standalone debt is Rs.108 Crores, which comprises of Rs.104 Crores of equipment loan and a marginal working capital loan of Rs.3.7 Crores. We currently have an order book of Rs.11912 Crores, which gives us a visibility of a strong revenue growth for the next couple of years.

With this we will open the floor for question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ashutosh G from AG Capital. Please go ahead.

Ashutosh G: Good afternoon and thank you for taking our question. Firstly I would like to congratulate the company for the successful completion & inauguration by PM of this Eastern Peripheral Expressway and it is wonderful news for the investor as well as the company. Having said that I have three questions. First question is, there was a mention about this extension period in Katni project can you please clarify if the revenue related to the extension has been considered in current results or will it be considered in future and what is the quantum? Second question is about in these HAM projects where we have around Rs.5000 Crores of order book, what is the sort of benchmarking that we are doing as far as project IRR is concerned in such projects? My third question is about this CCD treatment wherein it was mentioned some reduction from retained earning, so what is that reduction from retain earnings, which was not impacted in P&L and what is the potential outflow on account of this CCD, which is probably recognized as a liability and I hand it over to the management for response. Thank you.

Paresh Mehta: Thank you. We have three questions. Addressing the Katni project's question on the arbitration award. So as on date we have not recognized Rs.77 Crores of toll revenue which we have collected which is lying as a bank balance under the escrow in our balance sheet, but not recognized as revenue in the P&L account, so as soon as the order comes we will recognize it as revenue. Further to that, there is additional period which will be available for us to collect toll which also will then whenever the penalty is achieved we will recognize in P&L till then we will continue to retain in at the balance level only as the liability. On the second part, on the HAM projects as we have already reiterated our hurdle rate of 14.5% will continue to remain in the existing HAM projects based on the financial closures which we are in the process of achieving.

Ashutosh G: It is the project IRR or equity IRR that you look at?

Paresh Mehta: This is equity IRR.

Ashutosh G: Okay, we do not benchmark it to project IRR level?

Paresh Mehta: No, because the project IRR we are more targeting on the equity IRR but this is exclusive of any EPC a margin, which the ADL earns separately, this is only project levels IRR. On the CCDs part as we have clarified in the opening remarks the CCDs accounted the liability towards Macquarie accounted as fair market value, so that value comes to as of March 2018 is Rs.1359 Crores, which in part is coming as minority interest with now we have pulled it down to current liabilities payable to shareholders. On actual terms, there is no cash outflow for the company. This is more of an Ind-AS accounting treatment. Once the sale happens or the shares are converted into equity these amounts will get retained back to networth of the company. So for all practical purposes, this Rs.1359 Crores is a part of the networth of the company.

Ashutosh G: Okay. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Nilesh Bhaiya from Macquarie Group. Please go ahead.

Inder: This is Inder here. Thanks for the opportunity. My question is on the HAM orders that we have managed to get, what is the likely timeline of the financial closure of these projects and if you could also throw some colour on as to what percentage of the total TPC is being financed, what is the debt equity incrementally the banks are asking in these projects?

Paresh Mehta: The HAM projects, the timeframe of completion of these HAM projects are in the frame of two years, two-and-a-half years, some projects are two years and some are two-and-a-half years. As far as the financial closure is concerned, we will complete the financial closure in five months which is approximately around September 15, 2018. On the third point, the debt equity structure for these projects continued to be financed at 80:20 ratio which we are demanding and if we are getting from the lenders. This is 80:20 for the 60% of the HAM projects, which is to be financed. So on an overall project perspective of Rs.100 project it would be 12%.

Inder: Right and in terms of the TPC, because what we noticed is that what you are getting or what EPC you are taking out of the HAM seems to be on the lower side compared to some of your peers in the market, is it to do with the bank's willingness to finance slightly lesser amount compared to what they were doing earlier, if you could throw some light on that?

Satish Parakh: Nothing to do with the banks. It is all EPC worked out as per industry standards and if EPC prices are finalized between Macquarie group and us are pre-bidding?

Inder: Okay, can you just talk about some more on industry side towards happening, because I think not with us but there are number of players where you think the O&M cost seems to be quoted very low and is there in a situation where banks are starting to demand lower TPC or lower or they are financing lesser amount compared to what is the total NHAI cost or something like that?

Satish Parakh: For our site projects we did not face any of such queries for the banks.

Inder: Okay, that is it from my side.

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 CCD adjustment again, 1359 has been recognized as a liability against which the minority interest amount earlier would have been only Rs.700 Crores or Rs.800 Crores right, so the balance adjusted from the return earnings, is that the adjustment?

Paresh Mehta: Yes, that is true.

Ashish Shah: So the minority interest had how much Sir Rs.700 Crores or Rs.800 Crores?

Paresh Mehta: Minority interest as of March 2017 was around Rs.500 Crores.

Ashish Shah: Okay, fine. So if I take the March 2017 balance sheet then Rs.500 Crores has got adjusted there in the balance from the opening reserves?

Paresh Mehta: Correct.

Ashish Shah: Then in terms of the Rs.174 Crores of obligation that we have recognized, so is that what to do with what we expect as a shortfall in the guarantee return?

Paresh Mehta: No, this is only fair market value realization. So the fair market value 10% of the SBI Macquarie is recognized at 1359 and which will keep on unwinding every year, so from all practical purpose the fair market value is higher than whatever we have to offer, so the only accounting requires at because the conversion means not a fixed conversion from 1 CCD to 1 equity share does the reason the liability has to be recognized otherwise it continues to be part of the networth or minority interest.

Ashish Shah: So Rs.174 Crores that is related to the adjustment from 34% to 39% stake, which was based on Sambalpur project is that what we are saying?

Paresh Mehta: That is the different one. That is at the standalone level. At the consolidated level that Rs.174 Crores gets knocked, the impact on the consolidated only Rs.1350 Crores of the fair market value of the share of 39% of Macquarie.

Ashish Shah: Got it and the finance charge of Rs.20 Crores, which you have taken, will that figure in the other expenses?

Paresh Mehta: Not, in the consolidated.

Ashish Shah: In the standalone.

Paresh Mehta: It will be in the other expenses. So that again is a non-cash expenditure, which will have to not consider when you have actually seen the EPC margins for the company.

Ashish Shah: Sure, lastly now that we have said that the fair market value for the stake is 1359 Crores, but in this process have we got the valuations of the assets done in any idea on how of the underlying assets valued?

Paresh Mehta: Definitely this 1359 Crores is based on a conservative valuations methodology adopted by the valuation experts, but it does not include many aspects like platform premium and other things, so it is just a fair market value of all the six projects which we had in the portfolio.

Ashish Shah: This I believe would be simple 12% IRR of whatever money they have invested of about Rs.700 Crores?

Paresh Mehta: It will be slightly higher because it will be based on fair market not on 12%, 12% is the lower number, this is the higher number which it is fair market.

Ashish Shah: Any number you can leave us with in terms of what is the total valuation of the assets. What would have been done?

Paresh Mehta: This 1349 is a 39% corresponding.

Ashish Shah: Okay, fair enough, so you are saying this corresponds to 39% one can make.

Paresh Mehta: Right.

Ashish Shah: Okay, sure. Thank you Sir.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Good afternoon. First of all just need a book keeping numbers, if you can tell us because the standalone segmental is not there, so what is the EPC revenue excluding the other income and the RMC for the full year?

Paresh Mehta: Revenue for 2017-2018 is Rs.2268 Crores.

Nitin Arora: Sir can you give me the breakup of roads and power T&D of this?

Paresh Mehta: Road would be Rs.1865 Crores and power would be around Rs.200 Crores.

Nitin Arora: And Sir can you give me the whole year RMC revenue?

Paresh Mehta: Rs.137 Crores.

Nitin Arora: How we are looking at it the revenue from the next year in the starting it was a remark of 40% growth, but this year also we were targeting around Rs.2200 Crores, Rs.2300 Crores of revenue to come in. So has there been just timing issue, which you faced in this quarter, or some projects specific issue is still there in the existing backlog. I just need your guidance for the net year of revenue?

Paresh Mehta: For 2017-2018 I think so we have achieved our target of 2300 of EPC revenue plus RMC of 137 Crores, so it takes care of our current target, so there is no slippage there. For us 2017-2018 when we are talking of 40% at least growth definitely this is based on the existing worth of balance order book and the new orders which will kick of in the second half of the year. So I think timelines required to be completed in, we believe that this we have achieved.

Nitin Arora: But this is accounting in if you do not see in any of the patches which is the newer HAMS, the patches are very clear and the write off way still there in the existing orders you have won, you do not see delay in existing in the new one HAM projects.

Satish Parakh: Five HAM projects out of this three are already have allocation in place and two will have some delays for acquisition, Karnataka projects may face some delays, but otherwise the three projects one of the Karnataka projects is already at advance stage with 88% plan acquisition has already in place at Khiaratunda, Barwa Adda also 89% is already in place, Ankleshwar, Manubar also land is in place, so only two packages of Karnataka which is Mallasandra Karadi and Karadi Banwara may get delay by may be two or three months. So overall we see will be able to do 40% plus for EPC growth.

Nitin Arora: Sir coming back to the equity requirement of the HAM, if you can tell us what is the total requirement and how we are going to put in FY2019 and FY2020?

Paresh Mehta: For the HAM projects which we have, the equity required would be around Rs.450 Crores of which around 35% to 40% will be invested in this year, balance over the next two years' time.

Nitin Arora: Okay, Sir just one clarification, Rs.1359 Crores of the fair value market assumption what you have taken for the six assets, what is the risk of upside on this valuation? When you are doing a fair market value on Rs.800 Crores of investment of SBI Macquarie, for example there are still time right for their date, if in between any traffic goes up or goes down, does that really change the valuation and is there any other thing, which is left or this is the number we should be working with it?

Paresh Mehta: This is the number, which will be working on which RFQ, but if there is an upside it does not really change anything from outflow perspective in fact it improves the valuation of the company stakes also in EPS, this is more of accounting parity other than any obligation.

Nitin Arora: And as per your calculation of 1359 Crores and then if you are just that remaining if you remove the minority the balance which is getting adjusted in the reserves, does seem like that there is no cash shortfall, I just need clarity on that. It seems like that the projects does not have any cash shortfall in terms of you are paying higher stake or lower stake?

Paresh Mehta: That perception is absolutely right. There is no cash shortfall on an overall portfolio at all.

Nitin Arora: Okay, just one last thing you have taken the extension also in this valuation I mean the project which had the concession agreement let us say X years and due to the traffic shortfall it would have been increased by four years you have taken that in this valuation as per?

Paresh Mehta: Yes.

Nitin Arora: Got it. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Bharani Vijay Kumar from Spark Capital. Please go ahead.

Bharani Vijay Kumar: Good afternoon Sir. For the quarter, can you tell us if there has been any tariff hike in the toll assets?

Paresh Mehta: In the quarter, there is no tariff hike. The tariff hike happens for most of the projects on April 1, 2018 and in case of three projects in August end for Bandara Durg and Wainganga.

Bharani Vijay Kumar: Bandara Durg and Wainganga in August.

Paresh Mehta: September end.

Bharani Vijay Kumar: And the remaining NHAI projects in April?

Paresh Mehta: April.

Bharani Vijay Kumar: Right, so the revenue growth that we had witnessed this quarter year-on-year completely due to traffic growth?

Paresh Mehta: Right.

Bharani Vijay Kumar: And what would be the average traffic growth for all the assets in fourth quarter.

Paresh Mehta: In the range of 11%, traffic growth of 11% and tollgate year-on-year of around 4.5% to 5%.

Bharani Vijay Kumar: Understood. Thank you that was my question and all the best Sir.

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

Vibhor Singhal: Good afternoon. Thanks for taking my question. Sir just to sorry to tell again on that Macquarie part. While we have taken the valuation of Rs.1359 Crores for the 39% stake of SBI Macquarie for the six projects, the Chennai ORR projects and the earlier two HAM projects, the remain part of ACL?

Paresh Mehta: Yes, they are part of ACL. They are also part of the valuation.

Vibhor Singhal: So they are also part of the valuation?

Paresh Mehta: Yes.

Vibhor Singhal: So Rs.1359 Crores includes the six projects and the Chennai ORR and the two HAM projects as well?

Paresh Mehta: No, the two HAM projects are part of the valuation, but they have just started or so, they do not contribute now to that.

Vibhor Singhal: Okay and similarly Chennai ORR also?

Paresh Mehta: Chennai ORR has completed so now it has a valuation.

Vibhor Singhal: But Chennai ORR contributes to the Rs.1359 Crores right?

Paresh Mehta: Correct.

Vibhor Singhal: And new five HAM projects that we have they will also be going into the ACL itself?

Paresh Mehta: Yes.

Vibhor Singhal: So in all these HAM projects and the Chennai ORR projects, we will continue to over 61%, stake 39% will be with Macquarie?

Paresh Mehta: Yes through ACL.

Vibhor Singhal: Through ACL, so the equity requirement for the new five HAM projects, will Macquarie be investigating anything more it or no?

Paresh Mehta: No, they would not.

Vibhor Singhal: Okay, so we would be investing the entire equity, but we would still get only 61% stake in these projects?

Paresh Mehta: No, once we invest, so we have already invested for the Kharar and the Ranasthalam approximately Rs.100 Crores odd and for the new projects also will invest and over the period of time our stake will be existing, our stake will increase.

Vibhor Singhal: So our stake will increase from 61 to whatever the percentage of investment that we have done in these new HAM projects?

Paresh Mehta: Right.

Vibhor Singhal: But Macquarie not bringing any more money on board right?

Paresh Mehta: Yes, they felt structurally they cannot.

Vibhor Singhal: Okay, fair enough Sir. Also if I can just ask quickly on the basically the five HAM projects that we have won, so the numbers that we have given in the presentation those are the BPC cost, so is that the EPC cost plus the NPV of O&M is that the final EPC cost that we have bid in those HAM projects?

Paresh Mehta: No. They are the big price cost which has been given. It will be different from the EPC cost.

Vibhor Singhal: So will be possible for us to give us the bid EPC cost for these projects?

Paresh Mehta: Yes the total would be Rs.4212 Crores only five projects.

Vibhor Singhal: Rs.4212 Crores. Okay and Sir what will probably accrue was in the order book in terms of the EPC?

Paresh Mehta: Correct.

Vibhor Singhal: And Sir the BOT project that we had from the SBI Macquarie deal Rs.1025 Crores that we have recognized that has to be executed over the period of two years?

Paresh Mehta: 18 months.

Vibhor Singhal: 18 months. Okay sure Sir. That is fair enough and I had one more question on your debt numbers now our presentation sales that are standalone debt is actually at Rs.107.8 Crores but if I look at the numbers that are given on the BSE release as part of the balance sheet our long-term and short-term borrowing itself total to around Rs.125 Crores, so am I missing something there, is it current maturity of long-term debt, which is not there, which is not included in the standalone PBT?

Paresh Mehta: No see this 121 plus other, this 121 includes Rs.54 Crores of loans received from associates, which are like cash flow existing with the BOT projects of ours.

Vibhor Singhal: Okay so there are loans from associates that we received so 1078 million is the external debt that we have at the standalone level.

Paresh Mehta: Correct.

Vibhor Singhal: Fair enough. Great Sir. Thanks for answering my questions. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Abhijith Vara from Sundaram Mutual Fund. Please go ahead.

Abhijith Vara: Thanks for taking my question. Sir suppose for the HAM projects you end up incurring lower EPC cost than what is envisaged currently, still the bankers allow you to draw down on full debt, which is tied up at the financial closure states and which might therefore contribute to equity IRRs is that the possible scenario?

Paresh Mehta: No Sir these EPC prices are fixed price contracts executed with the SPV. So whatever accrual of any savings in the EPC price would accrue at ED level and not in the SPV level.

Abhijith Vara: So the project cost is fixed?

Paresh Mehta: EPC price is fixed.

Abhijith Vara: Okay. Sure and typically what will be the benchmarks on you are taking 75% of the PPC, as EPC cost is that?

Paresh Mehta: There is no benchmark. It is derived price and then the model run.

Abhijith Vara: On the balance sheet the debtors as well as inventory both have shown sharp increase year-on-year in FY2018 standalone level, could you please help us understand what happened?

Paresh Mehta: So if you see other financial asset includes WIP when that has reduced sharply, so what has happened is work-in-progress are shifted to debtors basically that is major change, the inventory has moved up just because of accrual of procurement at the end of the year in power sector.

Abhijith Vara: So the incremental changes just WIP Sir, which has come down?

Paresh Mehta: The movement of the WIP from other financial assets to debtors.

Abhijith Vara: Okay Sure. But last question this EBITDA margin what will be the stable EBITDA margin for EPC going forward?

Paresh Mehta: As we always guide our EBITDA margins at EPC and roads continued to be in the range of 12%, 12.5% and in the power in the range of 11% so that will continue to be at directly vis-à-vis EPC.

Abhijith Vara: For this year including the other income right when you are saying?

Paresh Mehta: Including other income generally tends to be around 15%.

Abhijith Vara: So Sir in Q4 as well as Q3, the EBITDA margins reported on standalone is 11.5%?

Paresh Mehta: But other income in our Q4 numbers is typically inclusive of profit from Maldives project where the topline and bottomline contributed totally, so it is not other income. It is actually EPC business income.

Abhijith Vara: This is profit from associates is it some sort of?

Paresh Mehta: From participants side where we are executing the Maldives project, which is now completed.

Abhijith Vara: Okay so you are saying 11.5% core EPC margin, which are reported operating should go up to 12%, 12.5%?

Paresh Mehta: Yes.

Abhijith Vara: Sure Sir and could you also give us idea about the order pipeline which you might further look at the current year? I know you all already got sufficient orders but do you have any targets for the remainder of the year?

Satish Parakh: Yes see this year also we are going to see around 20000 kilometers which will be bid out by NHAI alone, so up to July we will be able to see another Rs.6000 Crores of order bidding. So we are participating in most of the projects. We are targeting around Rs.6000 Crores in roads this year and power T&D around Rs.1500 Crores. So total about Rs.8000 Crores our target for this year.

Abhijith Vara: This is including what you have got in April Sir or excluding?

Satish Parakh: It is excluding what we got in April.

Abhijith Vara: All the best Sir. Thank you.

Moderator: Thank you. The next question is from the line of Sushant Bhansali from Ambit Capital. Please go ahead.

Sushant Bhansali: Good afternoon Sir. Congratulations Sir on the great set of numbers. Just wanted to have query on the BOT project, which you have won along with Macquarie when does that start throwing revenues then what are the likely numbers from those contracts?

Satish Parakh: See September onwards EPC would start. We have EPC about Rs.1025 Crores to be done in 18 months.

Sushant Bhansali: Thanks.

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

Anupam Gupta: Sir some more clarity on this ACL thing which you have been in the balance sheet so considering that it is being treated as debt rather than equity at this stage so should Rs.1359 Crores be the actual return that we are making so effectively Rs.800 Crores plus 12% IRR translates Rs.1359 Crores, is that right way to look at it? Or is Rs.1359 Crores in the actual fair value because if it does not matter what are underlying assets are treated, right?

Paresh Mehta: Yes this is fair market value on the conservative basis I would say. As I said it does not improve to see lot of other things like platform premium and other things, but so the liability is definitely recognized at the fair market value whereas the underlying assets in the balance sheet continued to be at cost.

Anupam Gupta: So this is not representative of the underlying assets Sir can be higher or lower whatever final deal happens, Rs.1359 Crores effectively 800 plus 12% IRR right?

Paresh Mehta: No it is not 12%. It is general assessment of fair market value. We have not gone to market to arrive at fair market more of internal working as by expert.

Anupam Gupta: Question which I am asking is from an accounting point of view, this is being treated as debt asset rather than as equity is the interpretation that it is effectively 800 plus whatever IRR you had to give it equals to Rs.1359 Crores as on date is that the interpretation right?

Paresh Mehta: This is Rs.800 Crores for the share market value of the asset so it is probably if it may be around 13%.

Satish Parakh: It is more than 12% because we have to provide them as a fair market value is not only 12%, they will get 12% plus whatever market gives.

Anupam Gupta: Okay and so then on related part what is the status of the exit, which SBI Macquarie is trying to do, and what are likely timeline for that?

Paresh Mehta: They have a timeline of existing by March 2019, which we can be again extended by another two years. As of date assets are doing well. There are not in hurry, they are definitely looking out for alternatively exit options through a stake through a third party, but that process is on so they are looking for alternatives. Otherwise I think they are fine with that.

Anupam Gupta: Okay and let us say if exit happens one year down the line and till then you have invested some incremental equity in the new assets, which are part of the ACL at the time of exit how will that be taken care?

Paresh Mehta: So whatever equity we are put in, will be adjusted without stake and then they will be given then the valuation will be done so today if they are at 39% up may be one year down the line we would have invested another Rs.300 Crores in the projects so total another Rs.400 Crores all HAM project invested then that reevaluation will be done and accordingly, their stake will be adjusted and then their stakes will remain.

Anupam Gupta: Okay understand and just on small on tax rate what should be the tax rate for the EPC entity going forward?

Paresh Mehta: This should be in the range of 23%, 24% in the coming year. Small portions of ATI projects are still to be executed will get executed in this year majorly.

Anupam Gupta: And then FY2020 should be ideally full tax rate?

Paresh Mehta: Yes almost because hardly will be let out.

Anupam Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

Abhinav Bhandari: Good afternoon Sir. Thanks for taking my question. Just a couple of things on this spending topic of financial liabilities so if I understand correctly this would be moving number every quarter right Rs.1359 Crores depending on how the traffic moves, how the interest rates move and the other variables?

Paresh Mehta: Yes it will not significantly change unless variable see substantially, but I do not think this should be significantly change.

Abhinav Bhandari: Sure and difference of that you would be providing in the other comprehensive income in P&L is that understanding correct?

Paresh Mehta: No it is as a financial charge.

Abhinav Bhandari: Okay got it. Sir could this study that you was saying but this independent valuer could this be available to the shareholders to study either on the website or whichever way you find it okay?

Paresh Mehta: No I do not think so.

Abhinav Bhandari: Okay but if you could help with what were the key variables just to understand what kind of traffic growths and all if you could give some idea?

Paresh Mehta: I do not think that is more of internal working.

Abhinav Bhandari: Okay sure. The other question was Sir now that we have got this five new HAMs and the entire equity would now be funded by us, what is the incremental kind of ability for our parent balance sheet to take more HAMs or alternatively where we would contain ourselves in terms of equity infusion from the parent side?

Paresh Mehta: See the equity requirement for HAM project is generally in the range of 12% so which is not a very big constraint on the overall balance sheet of the company so we can keep on taking but we will have to recycle these assets and monetize these assets over a period of time so I think so some assets when they are developed and they will be sold off some structure with the right kind of InVIT structure, which should help release capital and to be put in new projects so I think so that cycle start.

Abhinav Bhandari: Sure what would be able to put number to next limit to the parent debt equity that all most work with while you are continuing to taking new HAMs?

Paresh Mehta: I think so we will continue to remain maximum in the range of 2.85%. Today we are quite lower, but to the extent of 2.85% to 3% should not be the big concern because we are taking funding at 4:2 so to the extent of three I think it should be comfortable position.

Abhinav Bhandari: This is consolidated number that you are talking about?

Paresh Mehta: Yes.

Abhinav Bhandari: Okay on the parent side Sir?

Paresh Mehta: On the parent side because there is no debt taken, so there is no debt at the standalone level.

Abhinav Bhandari: But let us say if you have to fund 40% of Rs.450 Crores, the new projects that you have got that would entail some bit of debt from the parent side or you do not envisage that position?

Paresh Mehta: We really do not envisage so any debt to be drawn for funding the equity because we will have mix of EPC, which has certain cash contracts and certain HAM project so the cash contracts also will contribute to any extra requirement of HAM projects. I think balance sheet should take care of itself. There could be transitory cash flow issues but that will be guided over the period of execution.

Abhinav Bhandari: Sure got it. Thank you Sir that is all from my side.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Principal Mutual Fund. Please go ahead.

Ashish Agarwal: Thank you Sir. Sir most of my questions have been answered just couple of things first of all in this guidance of 40% growth have you assumed the HAM projects, which will start somewhere in October and November?

Satish Parakh: Yes we are considered this HAM is starting in the month of October.

Ashish Agarwal: Secondly is it possible to share the name of this independent value or was value to ACL?

Paresh Mehta: No. These are valued by our auditor internally.

Ashish Agarwal: Okay and lastly Sir what are the order intake we are looking at in FY2019?

Satish Parakh: As I explained to you will look at around 6000 Crores on roads and highways around Rs.2000 Crores of power T&D.

Ashish Agarwal: Okay. Thank you Sir.

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

Pravesh A: Good afternoon Sir. Sir couple of questions, Sir what was the quantum of tariff hike that we would have received on our project from April 1, 2018?

Paresh Mehta: From April 1, 2018, for Jaora project is 7% and otherwise is approximately 4.2% for most of the other projects and for Bandara and Durg is 0.7% and is due for in September, last week of September.

Pravesh A: So Durg Bandara will get 0.5% from September?

Paresh Mehta: No Durg Bandara get from September 1, 2018 that break is yet to be published and given by the government.

Pravesh A: Okay for the other NHAI projects we have got about 4.2% from April?

Paresh Mehta: Different 4.6% in Belgaum and 4.7% in Dhankuni, Sambalpur is 4.6%. So toll rate rise for 2018-2019 for Belgaum, Dhankuni and Sambalpur is in the range of 4.6% and for Bandara, Durg it has to be declared in August end and Jaora-Nayagaon will be continuously to be 7% every year.

Pravesh A: Sure and Sir what was the total equity infused by us in FY2018?

Paresh Mehta: FY1018 approximately Rs.200 Crores.

Pravesh A: Thanks that is it from my side.

Moderator: Thank you. The next question is from the line of Divyata Dalal from Systematix Shares & Stocks. Please go ahead.

Divyata Dalal: Good afternoon Sir. One question from my side and total equity which we will likely to invest in Kharar, Anantpur and City Gas distribution project was around Rs.120 Crores, which you mentioned in last concall, this was FY2019 so what would be the pending equity requirement in these projects over and above the new five HAM projects?

Paresh Mehta: So the Kharar and Ranasthalam project equity to be infused in FY2019, continues to be at Rs.130 Crores and another Rs.35 Crores will be invested in 2019-2020, which is for Ranasthalam.

Divyata Dalal: Okay and City Gas distribution and the two annuity projects?

Paresh Mehta: The two annuity projects another Rs.22 Crores has to be invested in 2018-2019 and then the projects will be fully funded and approximately another Rs.10 Crores will be required in this year.

Divyata Dalal: This is for?

Paresh Mehta: That is City Gas.

Divyata Dalal: City Gas. So this is over and above Rs.450 Crores, which we mentioned for the five HAM projects?

Paresh Mehta: Rs.450 Crores is the total amount only 40% will be invested in this.

Divyata Dalal: Okay fine Sir. Thank you that is it from my side all the best Sir.

Moderator: Thank you. The next question is from the line of Naveen Jain from Florintree Advisors. Please go ahead.

Naveen Jain: Good afternoon Sir. Sir my first question is on the Pune-Shirur arbitration of what we have got of Rs.385 Crores by what timeframe you would expect this money to come in or what is the next step before we get in that money?

Paresh Mehta: This Pune-Shirur project arbitration of what against the Government of Maharashtra so government does have a right to challenge the award on technical ground, on merit issues settled. They would have right to challenge district then further on go the High Court and Supreme Court so from certainty of winning the final settlement of the case it will take sometime, but there will also be an opportunity in the court's decree that the money to be deposited with the High Court, which we can withdraw from the High Court against a bank guarantee that possibility is there, which could happen in say six to eight months' time also it all depends how the court take a view of admitting the case to the government of Maharashtra.

Naveen Jain: So there has not gone at with the appeal so far?

Paresh Mehta: No. They have not gone.

Naveen Jain: Okay and Sir secondly on these couple of EPC projects that we have on the road side, Islampur and Jharkhand-Chas it seems these are still not sort of moving at any reasonable pace so can you please update us with the status of these projects land acquisition in all that?

Satish Parakh: See basically this project started on the last Q4 of last year like Islampur is started only in February.

Naveen Jain: Okay so the project has started execution?

Satish Parakh: Yes they have started execution. We will see pickup from this quarter onwards and land acquisition issues almost addressed.

Naveen Jain: Sure Sir and finally for this Karadi project you mentioned that both the two projects HAM projects you mentioned that there is some land acquisition pending right now or some issue with that, what is the exact status or in terms of land already in hand?

Satish Parakh: See like I mentioned Karadi is having only 60% land as of now and Karadi Banswara is having around 83% land by October they both would be above 90%.

Naveen Jain: Sure okay Sir.

Satish Parakh: We have taking this may get delayed by may be another quarter.

Naveen Jain: Right but if you have.

Satish Parakh: Other three projects are very much at advanced stages.

Naveen Jain: And even in these it reaches us 90% by September-October will be able?

Satish Parakh: We will be starting execution on this.

Naveen Jain: Right sure Sir. Thank you.

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

Prem Khurana: Good afternoon Sir. Thanks for taking my questions. Sir most of my questions have already been answered just two, one is in your consolidated financials share of profit from associates which was almost Rs.15-odd Crores negative last year has suddenly I mean this is the positive Rs.59 odd Crores this year so which entity would have led to this significant change in the contribution from associates?

Paresh Mehta: Major contribution from Chennai ORR and Maldives project.

Prem Khurana: Okay but I think I mean in somewhere in your remark you said Maldives as come as part of your other income and share of profit from partnership right, which is what reflects higher other income in this quarter Rs.62-odd Crores this against as normal run rate almost Rs.10 Crores, Rs.20-odd Crores?

Paresh Mehta: Yes when I referred last time, it was pertaining to the standalone in other income and in the consolidated also these share of profit is coming, which is approximately Rs.40 Crores for Chennai ORR and Rs.20 Crores for Maldives.

Prem Khurana: Chennai ORR has already turned PAT positive in the first quarter itself?

Paresh Mehta: Yes.

Prem Khurana: Okay sure. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Ashutosh G from AG Capital. Please go ahead.

Ashutosh G: Can you please explain Sir on this TOT project that we have won, what is sort of strategy that we are looking at going forward and what would be our role per seeing that particular project to sort of enhanced the value of shareholder?

Paresh Mehta: Sir in the TOT projects our role with Macquarie is limited to as an old EPC and contractor. So we do not have financial stake there so whatever value accretion, which we will have on account of TOT for the company would be profit genetic from the EPC business as well as O&M business, which we will take for the operations of the BOT project.

Ashutosh G: Okay so do we have entire 15 or 20 years O&M tied up with them or we will be doing it year-on-year basis?

Paresh Mehta: No at present we have five year understanding later on we renewed as time comes.

Ashutosh G: Okay. Thank you Sir.

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

Ashish Shah: First is just a clarification the IRR on the investment by SBM Macquarie will be on Rs.700 Crores of investment or Rs.800 Crores?

Paresh Mehta: Rs.800 Crores.

Ashish Shah: It will be eligible on Rs.800 Crores of investment. What will be the treatment of arbitration of what for Pune-Shirur and Dewas are we going to take it in the P&L or will wait till the cash is actually received?

Paresh Mehta: We will wait till the finality of the order is there even if cash is received other than the bank guarantee we will return it in the balance sheet, we will not bring it to the P&L.

Ashish Shah: Okay so as of now we are not going to take it till you get a clear picture whether the government is going to appeal or not?

Paresh Mehta: Correct.

Ashish Shah: Right have we received the cash from the annuity of Chennai ORR and Mudhol? Has the cash actually been received?

Paresh Mehta: Yes.

Ashish Shah: How much was received in Chennai Sir?

Paresh Mehta: Chennai against Rs.110 Crores received because some small portion of work is spending with that retained and for Mudhol-Nipani whole 39.5% two installments were received.

Ashish Shah: Right. Sir on the receivables can you just breakup what are the major clients from whom these moneys are pending I believe you said most of them are from the T&D business, but yet from the major clients as and if you can do state wise number?

Paresh Mehta: I think I would not have it at this moment may be separately.

Ashish Shah: Sure Sir that will be fine. Thank you very much Sir.

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

Vibhor Singhal: Thanks for taking my question again Sir. Just one a quick question so you mentioned that you do not see the debt at a standalone level increasing in order to finance the equity of the HAM projects so considering that we are at around Rs.107 Crores right now and taking into account the 40% execution that we are going to do in the EPC where do you see the debt levels at the standalone level over the next couple of years?

Paresh Mehta: No based on our working capital requirement, as it demands we will keep on raising that working capital requirement. So that would be in the region of around Rs.250-odd Crores for working capital and machinery loan of around Rs.150 to Rs.170 Crores over the next two years' time. That would remain. EPC requirements will keep on being remained as far as the investment for SPV projects are concerned I think the balance sheet can take care on its own.

Vibhor Singhal: Okay you mean to say over the next couple of years we might require to Rs.50 Crores of working capital loan and Rs.100 Crores to Rs.150 Crores, Rs.170 Crores equipment loan?

Paresh Mehta: Correct.

Vibhor Singhal: This is over and above the debt that we have and this is on annual basis or you are talking of the next two years?

Paresh Mehta: It is transitory numbers so it will keep on changing so average over the next two years.

Vibhor Singhal: Fair enough Sir. Thank you so much Sir and wish you all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now hand the conference over to Mr. Anupam Gupta for his closing comments. Thank you.

Anupam Gupta: Thanks a lot everyone for during the call and thank you for the management as well. Sir if you have any closing comments?

Paresh Mehta: We thank all the participants for joining in the call and in case they have any further questions to ask we have always available and Stellar representative is also available to take care of those queries. Thank you very much.

Satish Parakh: Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Capital Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.