



“Ashoka Buildcon Q1FY17 Earnings Conference Call”

**August 30, 2016**



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**MODERATOR:**    **MR. ASHISH SHAH – IDFC SECURITIES**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Ashoka Buildcon Q1 FY-'17 Earning Conference Call hosted by IDFC Securities 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 '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Shah from IDFC Securities. Thank you and over to you sir.

**Ashish Shah:** Good Afternoon, Ladies and Gentlemen. We are hosting the Ashoka Buildcon's Q1 FY-'17 Earnings Call today. We have from the management Mr. Satish Parakh -- the Managing Director of the company; we have Mr. Paresh Mehta who is the CFO of the company and we also have Pooja from the Stellar IR. Sir, over to you. Request you to please make some opening remarks and then we can start the Q&A. Thank you sir.

**Satish D. Parakh:** Thank you, Ashish. Good Afternoon, everyone. A Very Warm Welcome to Earnings Call for the First Quarter of FY-'17, I have with me Mr. Paresh Mehta -- our CFO and Stellar Investor Relations. IR Advisors.

Let me start with the Industry Update: The current government is focused on building up the infrastructure through various initiatives and reforms to enable the private concessionaires to do business in a much favorable environment than before. In recent move, the government's policy thinktank NITI Ayog has prepared a note on how to unlock stalled infra projects and speed up the payments to the industry. The new administration law will address norms and disputes that lead to delay in project execution and payments. The Finance Minister is now also considering amending the current model concession agreement under which the government will have provisions to compensate the developer for losses incurred during the construction and during the concession. Compensation can be in the form of extending the period or in cash compensation. NHAI has laid out a target of issuing bids for construction of roads and highways with a total length of 10,000 Kms which is amounting to around Rs.1 lakh crores by the end of the current fiscal. Looking at the government focus on increasing allocation to the sector, we are very optimistic that the coming year will be good for the companies like ours.

I am happy to announce that this year has been a good year for us and I will take you through our project wins: We have received LOA for our Rs.1600 crores Hybrid Annuity Project, the project entails 4 to 6-laning from Kharar to Ludhiana in the State of Punjab on the Section of NH95. Concession period for this project is 17.5-years, out of which 2.5-years is construction and 15-years is the annuity period. We have also received EPC Project of 2 to 4-laning of Govindpur Chas which is in the State of Jharkhand, the total project cost is Rs.486 crores. For the Sambalpur Baragarh Project we have received completion certificate from NHAI for the balance stretch of 14.9 Kms. By this we have now commenced the entire stretch of 88.2 Kms. We have also consolidated our stake in Mudhol Nipani Project. We have purchased 49% stake from our JV partner for an aggregate consideration of Rs.35.69 crores, now we control 100%

of this project. Our current balance order book position is Rs.4300 crores, of this the Road projects are Rs.3600 crores and Rs.700 crores is the balance T&D order book. Out of the Roads, EPC order book is of Rs.3000 crores and the rest around Rs.600 crores is BOT order book. This order book numbers do not include our Hybrid Annuity Project of Punjab. I would now request Mr. Paresh Mehta to present the Results of Q1 FY-'17.

**Paresh Mehta:**

Thank you, sir. Good Afternoon, everyone. I am sure you have had an opportunity to look at the 'Presentation of the Results Update' which has been circulated and also have been uploaded on our website. I would now present the results of the quarter ended 30<sup>th</sup> June, 2016. As mentioned by Mr. Parakh, I am very happy to share that this has been a very good year as far as order intake is concerned; in Roads we have won orders to the tune of almost Rs.2,086 crores so far. Please note that we have declared standalone results for this quarter and not consolidated results. The standalone results stand as follows: Total income including other income for Q1 FY-'17 is Rs.477 crores as compared to Rs.498 crores in Q1 FY-'16. The total income of Q1 FY-'16 includes Rs.13.2 crores of dividend income from subsidiaries. During Q1 FY-'17 BOT division recorded toll collection of Rs.242 crores, up from Rs.223 crores in Q1 FY-'16. This includes Toll collected at Katni project under High Court order but not recognized as revenue. We have been collecting Toll on all our projects in the portal, except for Annuity Projects where Annuity is yet to start specifically in the case of Chennai Outer Ring Project and the KSHIP Project at Karnataka. Our EBITDA for Q1 FY-'17 is Rs.67.7 crores compared to Rs.90.9 crores in the corresponding quarter last year. The EBITDA margins in Q1 FY-'17 stood at 14.2%. Interest cost for Q1 FY-'17 is Rs.7.6 crores compared to Rs.14.3 crores for Q1 FY-'16. PAT during Q1 FY-'17 stood at Rs.30.8 crores with a cash profit of Rs.43.2 crores. The consolidated debt as worked out under the previous iGAAP accounting practice stood at Rs.3,974 crores. The debt at standalone was Rs.259 crores which comprises of Rs.42 crores of equipment loans, Rs.67 crores of working capital loans and Rs.150 crores of the non-convertible debentures raised in November 2014, which are due for payment in August, September and October equal installments. Project loans total to Rs.3,715 crores. The average cost of debt has gone down compared to June 30, 2015. A couple of our projects have already got refinancing and for a few projects negotiations are on.

With this Update, I would open the floor for Question-and-Answers.

**Moderator:**

Thank you. We will now begin with the Question-and-Answer Session. We take the first question from the line of Amit Sinha from Macquarie. Please go ahead.

**Amit Sinha:**

Sir, my first question is on the Construction business. This quarter we have started execution on some of the new projects. Can you give some details on the same, so what are the projects we started this quarter and how has been the execution progressing and when will we see margin being accruing in these projects?

**Satish D. Parakh:**

We could start projects of Eastern Peripheral Expressway only in the month of May. So we will see some execution progress in this quarter and JNPT also started in the month of May

around. So last quarter has not seen much of these revenues of this project, but going ahead Q3, Q4 will show substantial revenues of our JNPT project as well as Eastern Peripheral as well as my Jharkhand project would start in Q3 and the Punjab would start in Q4.

- Amit Sinha:** So the Hybrid, Annuity Project can start in Q4?
- Satish D. Parakh:** Yes, both the Hybrid, Annuities of Karnataka will start in Q3.
- Amit Sinha:** At the end of fourth quarter results and in the conference call you gave guidance for FY17. Is there any change in the guidance because of these two projects wins?
- Satish D. Parakh:** More or less guidance for FY-'17 will remain same, but we will see traction in the next year because these all projects, costly elements will start executing only in Q1, Q2 of next year.
- Amit Sinha:** Secondly, on the Power business, is there any order prospects in this year or we are going to concentrate more on the Road segment itself?
- Satish D. Parakh:** Yes, focus on Road segment will always be more, definitely, we will be participating some of the bids which are being put out in Bihar now and we expect some wins in may be Q4.
- Amit Sinha:** For this particular quarter, what would be the breakup of Power and Road for the Construction business?
- Paresh Mehta:** On the T&D side, 1/3<sup>rd</sup> of it is on the power sector and 2/3<sup>rd</sup> is on the road sector... EPC execution.
- Moderator:** Thank you. We have the next question from the line of Ankit Fitkariwala from Jefferies. Please go ahead.
- Ankit Fitkariwala:** My first question is regarding this consolidated which you have not published. So just wanted to understand what are the challenges that we are facing in terms of IND AS consolidation and what are the changes that we are envisaging in the reporting?
- Paresh Mehta:** With the change in the accounting policy and moving on to IND AS, at the parent level the challenge is a competitively restricted and we have overcome them, so ABL we have been able to give out the standalone. At the SPV levels which are the project level SPV companies, there are certain challenges mainly two major challenges on how the treatment has to be made for projects which have premium, that is fixed premium increasing by 5% every year and projects which are annuity based. So there we need to take a final conclusion to come to a consensus how we will finally present those books of accounts so that it gives a correct picture to the investors and to all the authorities concerned. So these two challenges remain typically high on agenda to resolve which we believe will be able to resolve in a couple of months' time and take a consensus from the auditors and people who are involved in finalizing the same.

- Ankit Fitkariwala:** Paresh bhai, secondly, on the Toll number, in the presentation the toll collection number for the sixth large project, if you can broadly give what has been the toll hike across these six projects?
- Paresh Mehta:** If you come to the Belgaum and Dankuni Project, Toll revision had happened on 1<sup>st</sup> of April to the tune of approximately 1.9% toll rate price and the Sambalpur project which got toll rate revision from 24<sup>th</sup> June, 2016 it got a toll rate rise of 19.96%, then on the Bhandara and Durg where the toll rate revision will happen from 1<sup>st</sup> September, this could be in the range of (-2.4%) because it is purely linked to WPI there would be a negative in the toll rate revision. The Jaora Nayagaon Project 7% growth is fixed for every year which we have already got from 1<sup>st</sup> April, 2016.
- Ankit Fitkariwala:** Broadly, coming to these numbers as you said, so Jaora YoY Toll Collection growth is 7% and since we had a Toll hike of 7% itself, broadly the traffic growth has been almost zero, is it?
- Paresh Mehta:** That is true. One of the reasons could be linked to NH3 traffic which typically the work has started improving there, some traffic which we had diverted in the last year will typically flow back. I think so that is the impact and now going forward I believe the growth will be visible; 4% to 5% at least throughout the year on an average.
- Ankit Fitkariwala:** Secondly for Bhandara and Durg you said (-2.4%), right?
- Paresh Mehta:** No, that will happen in September.
- Ankit Fitkariwala:** So YoY the Toll Collection is 9% and 6%. So broadly the traffic growth can be assumed to be similar because still last year it would have happened so there will be an impact in the traffic?
- Paresh Mehta:** Yes, right, so apart from toll rate rise which happened in the last year to the tune of around 2%, the traffic growth is in the range of 7% and 6% in both the projects Bhandara and Durg.
- Ankit Fitkariwala:** Are you seeing any improvement in July going into 2Q?
- Paresh Mehta:** No, this quarter will remain almost static, similar growth in the range of 7% to 5% in Bhandara, Durg and other projects also in the range of 6% to 8% because it will be a similar period on Y-o-Y, same monsoon period levy will be there which will be lower than the Q1 and then Q3, Q4 will ramp up. That is the trend which we always see.
- Ankit Fitkariwala:** If we look at the standalone annual report, the inventory number in FY16 has gone up massively compared to FY15, that you probably explained in last couple of quarters also because of the execution on Power T&D side, so lot of WIP sitting there. So you were saying that advances have also gone up and in line with the advances we are booking in more material and that is why the inventory is going up, but advances from customers is almost flat; Rs.388 crores to about Rs.384 crores. So not sure....

- Paresh Mehta:** If you consider the mix of Roads and Power, the Power advances have gone up and loan mobilization advances have been recovered for the project because they have all come under completion all the old projects of Roads. So maybe you could go in a detail working in a one-to-one basis but ....
- Ankit Fitkariwala:** But broadly it is because of Power T&D you are saying?
- Paresh Mehta:** Right.
- Ankit Fitkariwala:** What is our debt forecast for FY17 -- will it be on a decreasing trend, what are we expecting?
- Paresh Mehta:** At the project level debt there would be definitely incremental because we will be taking certain debt, the HAM project, debt will not be drawn before 31<sup>st</sup> March, but on the two Hybrid projects some debt could be drawn Bagewadi and Hungund and some debt will be drawn on Modhul also. So approximately Rs.250-odd-crores of debt will be drawn by March '16 at the project level. At the standalone level I believe we will be in the range of 200-250 of total debt in spite of increase in turnover. So it will be similar as it is today.
- Moderator:** Thank you. We have the next question from the line of Aniruddha Chattopadhyay from Elara Capital. Please go ahead.
- A Chattopadhyay:** A few questions: On standalone, our debtors reduced by Rs.130 crores quarter-on-quarter and you have also bought the stake in Modhul Nipani. So could you just help us understand standalone cash flow for the quarter?
- Paresh Mehta:** Standalone cash flow in the last two quarters of FY-'16, monies were invested into working capital cycles, those got released in Q1 FY-'17 which has typically approximately Rs.45 crores, Rs.36 crores have gone into the Modhul Nipani acquisition and this deduction in the total CC limits by almost Rs.130 crores. It is more related to release of working capital of the last year. We got payments for our amount invested in Dankuni which got released in March '16, which got used for releasing debt at the standalone level.
- A Chattopadhyay:** Second on your Punjab HAM model which we have a large order, so how will the financial structuring be for the equity portion, like what is our requirement and will we be using the EPC pursuit of the project itself to fund the equity or you will be infusing from the standalone balance sheet, just to understand?
- Paresh Mehta:** So as a normal financial closure which happens, almost 35% to 40% of the equities to be infused first from ACL, our holding company to the SPV which probably our holding company will have certain funds to fund into the SPV. So from that perspective the total equity would be in the range of around Rs.200 crore. So Rs.100 crores is what would be required to be invested from ACL.

- A Chattopadhyay:** Just to understand again on ACL, as of March '16 I think SBI Macquarie has invested Rs.800 crores earlier. So Ashoka, how much have they invested totally?
- Paresh Mehta:** Rs.1150 crores.
- A Chattopadhyay:** Going forward, all incremental equity infusion will be done by Ashoka Buildcon, the standalone entity in ACL or like how is it?
- Paresh Mehta:** That is one of the options wherein Ashoka Buildcon will fund the equity required for SPV, but correspondingly the investor also will dilute if we put in 100% of the equity investment on a fair market value as of date. Secondly, also the option could be at ACL, we could invite an investor partly replacing the existing investor or joining hand with the existing investor to put in each share of money and our 60% we could invest on our own. Those options are open. We are almost 5 to 6-months away from that milestone, because Hybrid we are going to the financial closure process, we have signed the concession agreement in say 25-30-days' time and then we will have 5-months for financial closure.
- Moderator:** Thank you. We take the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** My first question was on the split of EPC revenues between BOT and related third-party Road Projects, I think this quarter there would be almost 50% share of overall EPC revenues coming from third-party Road Projects, am I right on that remark?
- Paresh Mehta:** Yes, that's true, the revenue comes basically from Modhul Nipani on the BOT aspect and marginally from the Chennai ORR and the balance is all coming from 3<sup>rd</sup> party EPC contracts which we have at Ane Ghat and other projects and a small portion from the new projects JNPT which has just started in the last 1 and half month of the quarter.
- Aditya Mongia:** So what would be the margins approximate range for this third-party EPC execution?
- Paresh Mehta:** So as far as recognition of margins are concerned from this 3<sup>rd</sup> party, almost the 3<sup>rd</sup> party EPC contracts which have just started typically JNPT and EP projects where we have approximately done a turnover of Rs.40 crores, we have not recognized any margins on that because it has not achieved a threshold level wherein whatever practice we have accounting for margins could be accounted. So of the total turnover of approximately Rs.200 crores of EPC on Roads, Rs.40 crores is such where margin is not recognized, on the balance 3<sup>rd</sup> party EPC margin the EBITDA margin is in the range of 11%, 11.5%.
- Aditya Mongia:** The second question was more on HAM Projects, now that we have also won number of projects. Are we seeing pricing levels rationalized in that domain or are they getting more aggressive in terms of pricing?

- Satish D. Parakh:** Bidding aggression is tapering down to a great extent. So we see some rationalization coming in.
- Aditya Mongia:** Thirdly, on the Belgaum Dharwar Project, the traffic growth numbers have been quite muted over the past 3-4-quarters in the range of about 2% to 4%. Anything specific which is happening over there?
- Paresh Mehta:** Nothing specific I would say, may be probably that corridor traffic has not improved substantially, so it is 4% around so the traffic growth. It is more of we have to just wait for a pickup to happen on that, it is more of an economic captivity impact, otherwise there is no other specific reason for the run down.
- Aditya Mongia:** On Sambalpur Project, any indications that you are getting of demand actually picking up apart from whatever 70% increase is there assuming on the Toll front, is traffic expected to improve in this year?
- Paresh Mehta:** Traffic is already looking up in this Sambalpur project in the last three quarters if you see it is in the range of 13% to 14% traffic growth and we believe that it is more of a local impact of increase in traffic which was on a lower base and certain traffic which was not getting captured, has been now captured fully. So the real impact of mining and steel production activity has yet to come into this project.
- Moderator:** Thank you. We have the next question from the line of Ankita Vora from B&K Securities. Please go ahead.
- Ankita Vora:** Sir, my question was on the projects that were bagged in FY16. So, Arunachal Pradesh projects were bagged in November, but we have not seen any execution so far on that project. What is the key issue there?
- Satish D. Parakh:** These projects have started and we are seeing execution; 15 crores of work has already been completed, first milestone has been achieved before time.
- Ankita Vora:** Any particular approval issues pending on any of the projects that we have got earlier?
- Satish D. Parakh:** We have some issues on Islampur Bypass to start, otherwise Eastern Peripheral has started well now and JNPT also started in full swing. So some land acquisition issues are still there on Islampur Bypass which should get sorted out in another month or two.
- Ankita Vora:** Maldives Project?
- Satish D. Parakh:** Maldives is progressing well, we are almost on target.



- Ankita Vora:** Most of our projects have seen muted traffic in this quarter. So what would be the blended portfolio traffic growth that we would have seen and what is the kind of anticipation going forward?
- Paresh Mehta:** So if you exclude the toll rate rise impact, the range would be in the range of 4% to 5%.
- Ankita Vora:** Is it likely to remain at similar levels only for the rest of the year?
- Paresh Mehta:** No, I do not think so, these two quarters will be lower I believe that Q3 and Q4 should definitely pickup. So on an average it will be more than 7% definitely.
- Ankita Vora:** Is this largely driven by hope on improvement in economic activity or is there any project specific triggers that are there that could help improve traffic?
- Paresh Mehta:** No, I do not think so, there are no project-specific, but it will be more based on the background of the last year's economic activity growth only. So nothing abnormal is envisaged in this 7% growth.
- Ankita Vora:** COD expected for the two Annuity Projects which are under construction?
- Satish D. Parakh:** Should be completed by December. We are expecting COD for Modhul Nipani and Chennai ORR.
- Ankita Vora:** On standalone numbers, depreciation has seen a decline in this quarter. Reason for that?
- Paresh Mehta:** Because of the component accounting we have depreciation charge. Last year adjustments were made for assets which were classified as per components. So that impact was taken in 2015-'16 itself. So that impact having done with, now this is a regular trend which will happen of depreciation charge.
- Ankita Vora:** This number is likely to be at similar Rs.12 crores kind of level for rest of the year?
- Paresh Mehta:** Right.
- Moderator:** Thank you. We have the next question from the line of Abhijeet Vora from Sundaram Mutual Fund. Please go ahead.
- Abhijeet Vora:** Sir, I have a couple of questions: First one is what is the status of this inventory amount which was struck in a specific T&D project in Q4?
- Paresh Mehta:** Inventory amount is getting converted into billing on a regular basis because as I had explained last year also most of the inventory in our BR project is paid for, but until the final billing is done the inventory does not get communicated into billing and then into payment. So on

accelerated basis it is getting converted into billing. So I think by the end of Q3 we will see substantial portion of inventory going down on the Power sector.

- Abhijeet Vora:** This will get converted into receivables, is it?
- Satish D. Parakh:** There is not much gap between receivables and payment except for the security deposit which is retained for a year or so. So that will remain but that is 10% approximately, otherwise 90% will get converted.
- Abhijeet Vora:** There is a press release on BFC which says you have completed one specific T&D project on time or before. Is this regulated to the same project or different?
- Paresh Mehta:** Yes, this is one of the modules into the Bihar projects in Munger district which has achieved 100% electrification and the project was done well in good time, and we have been accredited by the Bihar Chief Minister for this achievement.
- Abhijeet Vora:** The pending project which is in inventory would get concluded by Q3 or Q4, is it?
- Paresh Mehta:** Yes, so there are other districts also, the total works was around Rs.800 crores, this is one of the part of that Rs.800 crores, that is over, but other projects are still going on, so they will get over and concluded by Q3 which would get substantial billing completed.
- Abhijeet Vora:** Second question is on Modhul Nipani, has the grant been received, there was a state grant component cost in the project cost?
- Paresh Mehta:** Yes, they are being released on regular milestone, so as soon as milestones are achieved, we are getting grant released.
- Abhijeet Vora:** What would be the internal estimated IRR on this annuity Modhul Nipani Project?
- Paresh Mehta:** Modhul Nipani around 17% equity IRR.
- Abhijeet Vora:** This is adjusted for grant on your equity component?
- Paresh Mehta:** On my equity component, so more than 17% is what we are sure of.
- Moderator:** Thank you. We take the next question from the line of Ankit Fitkariwala from Jefferies. Please go ahead.
- Ankit Fitkariwala:** First of all, on the HAM Project what are we seeing in terms of financial closure? The earlier projects that have been ordered till now have received financial closure, because there is some industry talk that these projects are facing some hindrance in financial closure in terms of when the money from NHAI if it is linked to 20% completion, so significant amount of cost is incurred before that 20%, so how does the milestone payment work and those issues, just

wanted to hear your thought on this? I am saying in general for the industry if you are hearing, because this is our first project we have 150-days to do financial closure I guess, right, but in general.

**Satish D. Parakh:** But we are almost on finalization of all the terms with banks.

**Ankit Fitkariwala:** In general, there is no issue that the banks have for financial closure of these...?

**Satish D. Parakh:** We had issues on other projects which were very aggressive. So initially they have taken time to understand the entire dynamics but of late I think most of the projects have achieved financial closure.

**Ankit Fitkariwala:** Typically, what kind of equity IRR are we expecting in this project?

**Satish D. Parakh:** Between 16-17 is what we will make in Punjab also.

**Ankit Fitkariwala:** Broadly it will be 15% of the total project cost, that equity will be put. But if we include the 10% say EPC margins, then it goes way below that. So this equity IRR 16-17% is calculated on that 15% project cost or inclusive of the EPC margins also?

**Paresh Mehta:** This is 15% of the project cost. So it is exclusive of any EPC margins earned. So they are mutually exclusive earnings. EPC margins of 12% EBITDA approximately will still continue to be there. Over and above all the equity investment what we make we will make IRR of more than 16%.

**Ankit Fitkariwala:** On the opening remark, you said that NHAI has plans of 10,000 Kms, Rs.1 lakh crore for FY17. If you could give any sense on what is the **(moth) 33:51** planning because I believe that in the first three-four months they have not done much, right?

**Satish D. Parakh:** They are also planning more than 5,000 Kms for the full year.

**Moderator:** Thank you. We take the next question from the line of Devang Modi from Equirus Securities. Please go ahead.

**Devang Modi:** Sir, firstly, wanted to understand the progress on Pimpalgaon-Nashik in regards to our stance against NHAI and also what is being done with regards to the interest and principal payments on the debt side right now?

**Paresh Mehta:** Presently, the request for termination payment which we had made in February and the termination which was happened in 13<sup>th</sup> April 2016 that has happened. That is what we understand. We being minority partners we are not hands on our day-to-day communication, but as of date no communication has been received on termination payments. So we are still awaiting that number. As far as the debt is concerned, up to July there was some DSCR account from which the debt was being serviced, there are certain challenges on the debt side.

Whatever is being serviced, we have also requested NHAI whatever toll is being collected by them has a toll collection contract, request for depositing that toll collected with the lenders, but that too is in process. So as of date the debt is still not being serviced fully.

**Devang Modi:** To that extent, there is a delinquency on the debt side or is this like L&T is paying that money or how does that work?

**Paresh Mehta:** No, probably now on a stand still phase.

**Devang Modi:** There is a delinquency over there?

**Paresh Mehta:** Yes.

**Devang Modi:** Out of the remaining Power T&D projects of around Rs.690 crores on our outstanding order book, what is the duration of execution over there now, when are we expecting the whole?

**Satish D. Parakh:** By Q4, we will be completing the entire order book.

**Devang Modi:** So by Q4 the entire Power T&D basically is going to zero as of now on the current status?

**Satish D. Parakh:** Correct.

**Devang Modi:** What is the total inventory and receivable for the company right now if you can just say that in number?

**Paresh Mehta:** I do not have that number at present.

**Devang Modi:** Roughly like what would be the retention money that would be there on the Power T&D side which would be there for a couple of years or so?

**Paresh Mehta:** I do not have that number now.

**Devang Modi:** On the Hybrid Annuity side, you have mentioned that you will be making around 15-16% equity IRR. So for that what I understand is you will be having certain O&M EPC margins at the SPV level as well, is it the correct understanding?

**Paresh Mehta:** That is typically the understanding as per IND AS. As per the old accounting standards the EPC being executed by the SPV would be typically EPC margins at the EPC level, but going forward under IND AS there is this issue of profitability on the O&M too.

**Devang Modi:** What is the issue over there if you can just explain?

**Paresh Mehta:** The recognition of the same, whether it accrues at the SPV level or it approves at the EPC level, how to quantify the same at the EPC level because if you have a back-to-back contract of

EPC, then as far as EPC is concerned how do you envisage a profit on EPC when is the back to back full contract. Secondly on the O&M definitely there is an O&M component and there is an annuity being received so that could be some component of profitability to be arrived at. This will be based on some kind of discounting of the annuities and then splitting into financial returns and O&M returns.

**Devang Modi:** The Hybrid Annuity project is what is the structure over there, it is not a part of Ashoka construction or is it?

**Paresh Mehta:** It is under Ashoka construction.

**Devang Modi:** To that extent, there is no dilution which is happening to Macquarie as of now?

**Paresh Mehta:** When the investment will happen, that time dilution will happen, if we do the 100% investment then Macquarie will dilute.

**Devang Modi:** In this case, we are expecting equity investment of around Rs.100 crores, right?

**Paresh Mehta:** No, Rs.200 crores overall investment, in this year by March '17 around Rs.100 crores.

**Devang Modi:** This Rs.1150 crores of investment you mentioned that includes this Rs.200 crores or that is excluding this Rs.200 crores?

**Paresh Mehta:** Rs.1150 crores is excluding that, that is the current position.

**Moderator:** Thank you. We take the next question from the line of Prabhat Anantraman from HDFC Securities. Please go ahead.

**Prabhat Anantraman:** What is the ending equity requirement for our two Annuity Projects?

**Paresh Mehta:** On the Bagewadi and the Hungund the total equity is Rs.110 crores, of which 50% we have already funded, so balance is to be funded in the next say 15 to 18-months.

**Prabhat Anantraman:** This plus we have to fund another Rs.270 crores for the HAM Project?

**Paresh Mehta:** Yes, around Rs.200 crores for the HAM Project.

**Prabhat Anantraman:** So we have a total equity funding of about Rs.250 crores which will be coming up in the next one or two years?

**Paresh Mehta:** 2-years time.

**Prabhat Anantraman:** Out of that, you are seeing around Rs.150 crores would be invested by this March end?

- Paresh Mehta:** Yes, approximately Rs.120 crores.
- Prabhat Anantraman:** Yes, Rs.50 crores of previous two Annuities and Rs.100 crores that you have?
- Paresh Mehta:** Yes, not necessarily Rs.50 crores of the two Annuities, this will be spread over 18-months, so maybe around Rs.25-30 crores of the two Annuities and approximately Rs.50-60 crores of this Annuity HAM. So outstanding equity to be invested from today's date is approximately around Rs.85-90 crores.
- Prabhat Anantraman:** Just wanted to understand how this funding will be done, if you can just throw some light on that?
- Paresh Mehta:** We have sufficient funds on the balance sheet as it is, at ACL, we have some funds available, at ABL, and lot of working capital will get unlocked in the next two to three quarters which will be available for investment in these projects.
- Prabhat Anantraman:** Apart from that, what are the CAPEX investment do you have plan for FY17?
- Paresh Mehta:** Other than this, there is only routine CAPEX requirement for machinery which will be to the tune of around say Rs.35-50 crores which will again be funded by equipment loans which are available.
- Moderator:** Thank you. We have the next question from the line of Preeti Dalramani from Edelweiss. Please go ahead.
- Parvez:** This is Parvez here. Sir, just wanted to check, post the 20% hike that we have seen on Sambalpur, what is the Toll Collection that we are witnessing currently on a daily basis?
- Paresh Mehta:** In the range of Rs.16 lakhs.
- Parvez:** Have we received any Toll hike on the Wainganga and the Katni Project in the recent past?
- Paresh Mehta:** No, on the Wainganga, toll rate revision has happened but it is on the downward, again, that is linked to WPI.
- Parvez:** Which was about (-2%)?
- Paresh Mehta:** Yes.
- Parvez:** Katni we have not received any...?
- Paresh Mehta:** No.

- Parvez:** As at June end, I think the pending work to be done was quite small and both the Chennai ORR and the Modhul Nipani Project, so any particular reason why we expect COD to come only in December?
- Paresh Mehta:** The finishing work which we have to complete it and our JV partner also will complete its work by September to October end and then we expect the CODs to happen.
- Moderator:** Thank you. We have the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** Sir, just wanted the numbers on the standalone level, they also include the BOT Projects of Ahmednagar, Aurangabad, am I right on that?
- Paresh Mehta:** Right.
- Vibhor Singhal:** So could you just let us know what is the EBITDA margins for the pure EPC business excluding this Ahmednagar, I know it must not be that great, but do we have that number?
- Paresh Mehta:** BOT projects EBITDA margins will be in the range of around 75%, so it is approximately Rs.6 crores is what it is there, you can reduce that. This will significantly change because that component is small.
- Vibhor Singhal:** Regarding the consolidated numbers..., I guess you might have provided that if that was possible, is there any chance that if we can have the numbers in the iGAAP format as well in terms of what was the EBITDA numbers or those have not been prepared?
- Paresh Mehta:** Because that is not what is adopted by the board. So it is more of MIS kind of stuff. Not really prepared then but we have an idea, definitely we are monitoring but we have not prepared them officially and put up with the board.
- Vibhor Singhal:** So the major problem was with the Annuity Projects as you mentioned and the Power Projects?
- Paresh Mehta:** Yes, basically Annuity and Premium Projects, where certain accounting decisions to be taken which will be taken in the next couple of months.
- Vibhor Singhal:** On the Toll Collection that we are seeing across the projects, as you mentioned that Sambalpur right now we are doing around Rs.16-17 lakhs per day, this is after the 20% kind of hike that we have received in the last month. So what is the kind of run rate that you expect this project to probably throw up maybe by end of the year or FY18 numbers?
- Paresh Mehta:** I think it will be in the same range I believe.

- Vibhor Singhal:** This would probably still be much lower than what we had earlier anticipated on this project, right?
- Paresh Mehta:** That is true, it is lower than what we had expected on the project, but that is totally different pieces.
- Vibhor Singhal:** Of course, the mining ban is probably impacting it?
- Paresh Mehta:** Yes.
- Vibhor Singhal:** Unless that comes into through, Rs.20 lakhs is probably something which is out of the equation at least at this point of time?
- Paresh Mehta:** Right.
- Moderator:** Thank you. We take the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Just wanted to clarify on the ACL venture, can the other partner in any way stop you from bidding in a specific project?
- Paresh Mehta:** No, we have an understanding where we discuss on projects and on certain threshold levels, we are okay bidding jointly, we have never raised any problem in any project till date, for the last two years we are bidding together.
- Aditya Mongia:** Secondly, just want to get a sense, obviously, NHAI is talking about large numbers over here in terms of awards this year, 6000-7000 Kms being talked about by NHAI and larger numbers by the ministry. Are you seeing tendering happening with as much strength and vigor at this point of time?
- Paresh Mehta:** Tendering is continuously happening. There could be one or two weeks of certain lull periods, but otherwise on a continuous basis, bids are being opened either on the EPC side or on the BOT HAM side, in fact, on the BOT HAM side, there has been a lot of traction in the past 4-5-months. The process is going on smooth. They have a good pipeline of more than 41,000 crores of jobs shared between NHAI, MRTH and NHIDCL. The pipeline would continue to be steady flowing.
- Aditya Mongia:** Regarding Jaora Nayagaon, in FY16 there appears to be a steady large R&M cost which is there. One should assume that this is just a one-off, right?
- Paresh Mehta:** No, major maintenance we have started doing for this project, it will be split into 1.5-years' time because there are three sections – the first section which COD first got over has been attended to and already done with, the other two sections are being addressed to and there will



always be done say 1-1.5-years' time. Major maintenance which happens once in 5-6 years' time, it is part of that.

**Aditya Mongia:** I was under the impression that you are building a periodic maintenance cost also. Is that not the case for all the projects?

**Paresh Mehta:** The P&L hit is for the provision created and the expenditure which is done from the provision already created for us. Debited on the P&L side, I am sure you got had the chance to look at the P&L, but the debit is purely a creation of provision.

**Aditya Mongia:** I could see Rs.35 crores kind of a fairly large number as an P&L item this year which is what I was trying to clarify?

**Paresh Mehta:** We will come back to you on a one-to-one basis what the number is.

**Moderator:** Thank you. We take the next question from the line of Abhijeet Vora from Sundaram Mutual Fund. Please go ahead.

**Abhijeet Vora:** Firstly, the interest cost drop in Q1. What is the sustainable portion for the remainder of the year and also what was the reason for the drop?

**Paresh Mehta:** There are two impacts of the drop – regular interest saving on the working capital cycle because the standalone typically addresses working capital interest rate only. So there the drop is in to the tune of around Rs.2 crores, balance is pertaining to the reversal of provision of credit loss accounting in the debtors and creditors which is a new impact of the IND AS accounting. So there is a Rs.3.5 crores reversal in this quarter for provision created over the last '15-16.

**Abhijeet Vora:** So sustainable portion will be Rs.11-12 crores for quarter....interest cost as of now?

**Paresh Mehta:** Yes, it could reduce a bit more by say Rs.50 to 100 lakhs.

**Abhijeet Vora:** By the end of the year, considering the pending liquidity requirement, loss funding and EPC execution which will increase, what will be the estimated debt increase incremental from current levels?

**Paresh Mehta:** As I said, it will be in the range of Rs.250-odd crores, will remain at that levels only. There will be advances received, there will be unwinding of the inventories in the stocks of power sector. So I think we maintain that kind of debt profile only.

**Abhijeet Vora:** There was long-term receivables of about Rs.180 crores in balance sheet FY16. What is the timeline for receiving this?

- Paresh Mehta:** Part of the receivables from BOT projects, loans given which will take some time, they are long-term, say 6-7-years.
- Abhijeet Vora:** BOT portfolio is ABL as well as ACL?
- Paresh Mehta:** Right. Second part, I do not remember the full number breakup of Rs.180 crores.
- Moderator:** Thank you. We take the next question from the line of Bharani Vijay Kumar from Spark Capital. Please go ahead.
- Bharani V Kumar:** This is Bharani. What is the status on this Islampur Projects? When is it likely to commence? What is the issue of the land possession there?
- Satish D. Parakh:** Islampur Project, still we have not been handed over due to land acquisition problems. So maybe another two months time we should be able to resolve everything. NHAI is trying to resolve all the issues and likely to get started after monsoon.
- Bharani V Kumar:** Our order inflow for the year has so far been about Rs.2,000 crores. So what will be the entire year target and how much of it will be HAM, are we willing to take in one more HAM project or will it be in EPC side?
- Satish D. Parakh:** We are participating both HAM as well as EPC. No doubt HAM will be out preferred way going ahead and we should expect another Rs.1500-2000 crores of order book by the year-end.
- Bharani V Kumar:** Given that our EPC revenues have been flattish year-on-year in the first quarter, so what will be our EPC growth guidance for say FY17?
- Satish D. Parakh:** Q3, Q4 we should have a good amount of execution. So definitely it will be higher than the last year.
- Bharani V Kumar:** About the equity to be invested, Paresh sir was telling we had invested close to 50% in the annuity projects, but if I see the execution there has not started. So is it to mobilize or why is it...?
- Satish D. Parakh:** This is all mobilization taking place.
- Bharani V Kumar:** So if I heard you right, the equity to be invested in the future is Rs.50 crores for these two annuity projects and another about Rs.250 crores for the HAM Project?
- Paresh Mehta:** Right.
- Bharani V Kumar:** So the quarterly results if I look at just the reported EBITDA margin, it is about 12.7% compared to about 14% in the same quarter last year. So any reason apart from the increased T&D order execution, any other reason why margins have fallen?

- Paresh Mehta:** Two reasons – one is last year we had dividend revenue from one of our subsidiaries which is not in this year. We did not have any dividend revenue from any of our subsidiaries in this quarter.
- Bharani V Kumar:** But would that not be accounted in other income below EBITDA?
- Paresh Mehta:** That would be accounted before other income. One reason is there, that is pertaining to certain revenues recognized in our top line. Those revenues we have not recognized the profitability. So it is almost Rs.40 crores of revenues on projects which have not achieved a threshold turnover limit of the total value of the contract which is approximately 5%. So below 5% we do not recognize any margins.
- Bharani V Kumar:** These would be the recent...?
- Paresh Mehta:** Yes, JNPT, EP and one or two...
- Moderator:** Thank you. We have the next question from the line of Rahul Agarwal from ICICI Securities. Please go ahead.
- Rahul Agarwal:** I wanted a more macro perspective. So in case let us say whatever the ordering NHAI has done this year till now, and there is a overall full year target is somewhere around 10,000 Kms tendering, so do you think with such low rest of the year having such high tenders and if it does not match, most of the players in this sector will start bidding aggressively going forward and how will that affect the whole margin basis that we all have right now for all the companies that we are building in?
- Satish D. Parakh:** Last two quarters what we have seen is aggression is tapering down to a great extent.
- Rahul Agarwal:** Yes sir, that is exactly, so we are expecting a lot of order tenderings and everything. But the first quarter has not been very great as compared to the target that we have for the whole year. So do you think that expectation...?
- Satish D. Parakh:** NHAI has already bidden out 3,000 Kms in the first quarter. The pace of bidding out is quite high. They may even cross 10,000 Kms.
- Moderator:** Thank you. We have the next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** I had a question with regards to the HAM Project. So how are we looking it as a portfolio from a strategic point of view, are we going to hold it for longer-term or once the project gets completed, so we may basically securitize and exit and treat it more like EPC kind of stream?
- Paresh Mehta:** This project having bid under ACL is definitely a portfolio company for ACL as a company which has got and invested in place. So definitely it has its own entity will be there for some

time depending on opportunities and how the sector developed for maybe from InvIT perspective, these projects could be journeyed into InvIT and amortized from that perspective. As of date, we would continue to hold it in our portfolio for another three to four years. Once the asset is developed, maybe securitize it but those additional options will come up later on.

**Parikshit Kandpal:** Because the question arises from the fact that some of your bigger peers are of similar size, so they do not have constraint of routing HAM projects through SPV structure, like basically wherein you have investor locked in, structure like ACL. So they are looking at more as EPC kind of a play, so once they execute it and then they exit and free up their equity and then put it in new projects because going forward the way is HAM so there will be requirement of equity on a continuous basis, so some of your competitors have now adopted that kind of a strategy?

**Satish D. Parakh:** We would like to have HAM Projects in our portfolio and once we have bunch of HAM Projects then definitely we can strategize and see how we can earn out of it.

**Parikshit Kandpal:** Second on is Viva Highways. If you see last year's annual report, so Viva basically contributed around Rs.190 crores in revenue and Rs.120 crores in profit. So part of it has also come from real estate monetization in that entity. But going forward, the Tolling is getting over somewhere around FY18. So bulk of....?

**Paresh Mehta:** Not FY18, it will get over in January '17 itself.

**Parikshit Kandpal:** Basically I wanted to know, there could be a big drag on overall profitability of this project going off the books. I think this would be contributing around Rs.60-70 crores profit just from the Toll?

**Paresh Mehta:** It is true, that is how the BOT Projects work, some projects get over and new project start getting added to the portfolio.

**Parikshit Kandpal:** Basically, you want to balance it out with the Toll growth in other projects?

**Paresh Mehta:** Exactly, it is an integral part.

**Moderator:** Thank you. We take the next question from the line of Nirav Shah from GeeCee Investments. Please go ahead.

**Nirav Shah:** Any funding support required for the Sambalpur Project this year and next year?

**Paresh Mehta:** Yes, there will be funding support required to the tune of approximately Rs.45-50 crores this year and then it will taper down by another say Rs.15-odd crores in the next year if we see a regular ramp up in the traffic and then it will become still supported in the third year.

- Nirav Shah:** Including the Rs.200 crores for the Punjab HAM, Rs.50 crores for Annuity and another Rs.60-70 crores for these two projects. So upwards of Rs.300 crores will be the total equity requirement for the two-year period?
- Paresh Mehta:** Yes, but then we have significant cash coming on from the Jaora Nayagaon Project which will support the portfolio.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Ashish Shah for his closing comments.
- Ashish Shah:** On behalf of IDFC Securities, I would like to thank the management of Ashoka Buildcon for giving us the opportunity to host this call. Also, thank you to all the participants for attending this call.
- Moderator:** Thank you. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.