



“Ashoka Buildcon Q2 FY17 Results Conference Call”

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MODERATOR: **MR. ANUPAM GUPTA – IIFL CAPITAL LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Ashoka Buildcon Q2 FY17 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 '*' followed by '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. Thank you and over to you, sir.

Anupam Gupta: Thank you, Stanford. Good morning, everyone. And welcome to this call with the management of Ashoka Buildcon Limited. We have with us Mr. Satish Parakh – Managing Director, Mr. Paresh Mehta – CFO and Gaurang Vasani from Stellar Investor Relations. I will now hand over the call to the management for the initial remarks, post which we can have the Q&A. Over to you, sir.

Satish Parakh: Thank you, Anupam. Good morning, everyone. A very warm welcome to our earnings call for second quarter of FY17. I have with me, Mr. Paresh Mehta – our CFO, and Stellar Investor Relations, our IR advisors.

Let me start with the industry update, then we will move to the Company updates. As you are all aware, the toll collection has been suspended for around three weeks due to demonetization effect. The toll collection has resumed from Saturday morning and we are making all possible efforts for smooth toll collection. We have arranged for POS machines at all our national highway toll plazas, the NHAI will compensate for the loss of revenue during this period. The awarding activity at NHAI continued to strong in Q2 FY17. NHAI has awarded around 1,700 kilometers of projects worth Rs. 20,000 crores in Q2 FY17, compared to approximately 500 kilometers of projects worth Rs. 8,000 crores in first three months of the current fiscal. In total, NHAI has awarded over 2,200 kilometers of project in first half of the current fiscal. MoRTH has also awarded similar length of projects. We expect ordering activity to continue in second half as well. As per the detail given on the NHAI website they have identified around Rs. 53,000 crores worth of projects which will be tendered in second half of the financial year.

Now coming to the developments at Ashoka Buildcon. Work on large EPC project is still peripheral and JNPT has commenced and we expect the same to pick up in the second half of the current year. We are witnessing strong traffic growth on our large projects, Dhankuni and Kharagpur, Sambalpur. Our largest project Dhankuni has witnessed around 13% traffic growth in last year. Sambalpur has also witnessed about 7% traffic growth in last one year. We have received completion certificate in Sambalpur and toll rate has been revised by 20% in last quarter. We have achieved financial closure of two of our BOT annuity projects in the state of Karnataka, Bagewadi and Hungund. We have started mobilization for these two projects and should contribute to the EPC revenues in the second half. We have executed the concession agreement for our first hybrid annuity project in Punjab. The project bid cost is Rs. 1,600

crores and EPC cost is Rs. 1,274 crores. We are working on to achieve the financial closure for this project.

In terms of order book, so far this year we have won projects worth Rs. 1,939 crores and our order book currently stands at Rs. 5,520 crores. In terms of breakup of order book, road projects are Rs. 4,769 crores, which is 86% of the order book and Rs. 751 crores are power T&D projects. Amongst the road the order book of Rs. 4,769 crores, EPC projects are Rs. 2,909 crores and the rest is BOT at Rs. 1,860 crores. Recently we have bagged order of around Rs. 180 crores in power T&D segment in the state of Uttar Pradesh. Further, we have declared L1 in few of the power T&D projects in Bihar. Our endeavor is continuously to reduce our interest cost. Recently we have refinanced around Rs. 200 crores in Durg project at 9.4% which is 50 bps less than our current interest rates. Our EPC project in Maldives is progressing smoothly as per the schedule. We have completed around 12% of this project.

As you may be aware, we have received small project in city gas distribution segment. The project includes build and operate CGD network in areas of Ratnagiri district in the state of Maharashtra. Ashoka would be sole authorized distributor for compressed natural gas and piped natural gas in Ratnagiri. We will be supplying CNG to vehicle and PNG to domestic as well as industrial consumers. In terms of investment, we require to invest around Rs. 150 crores in next four to five-year period.

That is all from my side, I would now request Paresh Mehta to present the results of Q2 FY17.

Paresh Mehta:

Thank you, sir. Good morning, everybody. I am sure you had an opportunity to look at the presentation of the results update which has already been circulated and uploaded on our website. I would now present the result for the quarter ended September 2016.

Please note that we have declared standalone results in this quarter. We had the process of taking opinions on decision on a few points given effect of IndAS, and thereafter we will be declaring consolidated numbers. On the standalone results, the total income including other incomes for Q2 FY17 is Rs. 455 crores as compared to Rs. 477 crores in Q2 FY16. As mentioned by Mr. Parakh, the construction activities have picked up on large EPC contracts, eastern periphery road at NCR, Delhi, and JNPT and other projects have also started contributing.

During Q2 FY17 BOT division recorded a toll collection of Rs. 234 crores, up from Rs. 217 crores in Q2 FY16. Two of our large projects Dhankuni and Sambalpur are placing strong growth in toll revenue. Our EBITDA for Q2 FY17 is Rs. 79 crores compared to Rs. 72 crores in the corresponding quarter last year. The EBITDA margins for the quarter is at 17%, the improvement in EBITDA margin is mainly on account of early completion of our power T&D project in Bihar. Net profit during Q2 FY17 stood at Rs. 45 crores with cash profit of Rs. 58 crores.

The consolidated debt as per I-GAAP stood at Rs. 3,956 crores, of which project debt stood at Rs. 3,731 crores. The standalone debt is Rs. 225 crores which comprises of Rs. 55 crores on equipment loans, Rs. 118 crores on working capital loans and Rs. 51 crores on NCDs. During the quarter we have redeemed around Rs. 100 crores of NCDs. As of date, the total NCDs have been liquidated and there are no NCDs outstanding. The average cost of debt has gone down by more than 150 bps in the last one and a half year due to refinancing of BOT projects, debt and overall reduction in year-to-date.

With this, we open the floor for question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We will take our first question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir, just wanted to know why was this almost 230 basis points improvement in EBITDA margins? So I understand you mentioned there were some bonuses in the T&D project in Bihar, so can you quantify that?

Paresh Mehta: So almost in one of our projects at Munger in Bihar we could achieve early completion for the project, mostly six months in advance which has given rise to this additional margin due to saving in overheads and product input pricings which is almost to the tune of Rs. 15 crores to Rs. 16 crores.

Parikshit Kandpal: Rs. 15 crores to Rs. 16 crores pump up in the margins on account of this project in Munger?

Paresh Mehta: Right.

Parikshit Kandpal: And sir second question is on your projects in Jharkhand, so Dumka, Govindpur and Chas; and also your Islampur project, so there has not been any progress to these former part of our backlog, so can you update us on the status of the execution on these projects?

Paresh Mehta: See, Dumka and Govindpur have just begun, so we are just in very initial stages. And NH32 in Jharkhand, which is our national highway project has yet not started, we have not yet got the work order for starting that, some land acquisition issues are still there which needs to be sorted out. So maybe in Q4 this work may start. About Islampur bypass, it has not yet started and we expect it to start by Q4 or maybe Q1 of next year.

Parikshit Kandpal: And sir just on your Kharar to Ludhiana project under ACL, so can you just explain like who would be putting the equity, will it be entirely by Ashoka, so how much will be the EPC margin on this project once it gets back to back subcontracted to us? So, will the margins be any different than our current EPC margins?

Paresh Mehta: On the Kharar to Ludhiana project, the EPC price on the project is around Rs. 1,274 crores which would be executed by Ashoka Buildcon where we will maintain our EPC margins at 12.5%, there will be no issue on that. On the second part, on the equity side, definitely the

equity has to be funded by Ashoka Concessions wherein Ashoka Buildcon will generally fund equity. Macquarie has already indicated that, their investment period has expired so they will not be funding, so Ashoka Buildcon is funding, the component of equity is approximately Rs. 150 crores which would be invested over a period of two years' time.

Parikshit Kandpal: And sir just last, if Parakh sir can address this, sir last week there has been around 38 projects listed by MoRTH to be bid out under the EPC mode and they have appointed MSRDC for basically consulting. So I understand in January 2017 the bids will be submitted at one go, so are we going to bid for these EPC projects? So can you just update us on what is your view on these projects around Rs. 16,000 crores which will be bid out by January?

Satish Parakh: Yes, these are basically state projects, management states and these will be two lane period shoulder kind of project. So depending upon the size, like they should be like Rs. 300 crores to Rs. 400 crores of projects, so we will be very selective in picking up these projects, our major focus would be at larger size.

Parikshit Kandpal: Okay, so amongst these the larger ones you will be basically looking at bidding at?

Satish Parakh: Right.

Moderator: Thank you. We have the next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Sir, my first question is basically a follow-up question on the Munger project, so this is a saving and not an early completion bonus right, I mean, or is it...

Paresh Mehta: No, it is not a bonus, it is a saving, the bonus is yet to fructify, we may get it in due course.

Amit Sinha: Secondly on the quarterly breakup of the revenue between the road and the power segment, can you share that number with us?

Paresh Mehta: On the road sector we have almost a turnover of around Rs. 285 crores and in the power sector around Rs. 120 crores.

Amit Sinha: And within roads how much would be BOT?

Paresh Mehta: I would not have on BOT.

Amit Sinha: Okay, no problem sir. Sir, my next quarter is on the guidance for FY17. So now with half, I mean, almost like three or four months remaining for FY17 to get completed, would you share any revised guidance or what is the outlook on the guidance and what kind of margins you would be looking for FY17?

- Satish Parakh:** As we already have indicated, a couple of our projects in Jharkhand, there is a delay in starting of those projects and also the Islampur project. So this will typically have an impact on the estimated revenue, which we had targeted for last year. So presently we would be in the range of 5% to 8% of EPC growth that is what we will definitely try to achieve. And we would definitely retain our EBITDA margins of 12% - 12.5% there, we will not have any challenge.
- Amit Sinha:** Lastly sir on Durg and Bhandara project, the traffic movement has slowed down a bit, is it only a seasonal impact or we are seeing something else, I mean, is there a general macro slowdown?
- Paresh Mehta:** I believe it is a seasonal impact, I think things will come back to normal in this H2, subject to the current position.
- Moderator:** Thank you. We have the next question from the line of Nitin Arora from Aviva Life. Please go ahead.
- Nitin Arora:** Sir, in the Islampur project, you said that you are going to start that work in Q1 itself, does it make sense for a company to cancel the project or you are getting the cost escalation there because it is more than a year that this project has been there. And what we know still the land is an issue in that area.
- Satish Parakh:** See, the LOI has already given by the authority, and these are pure EPC projects so they cover escalation cost. We do not have a choice to terminate this project unless NHAI mutually agrees to terminate it. So still NHAI is facing challenges on getting land acquisition that is in the part of West Bengal and we need to see how they cooperate, otherwise maybe in Q1 it may get terminated with mutual understanding.
- Nitin Arora:** But you are saying as per the EPC concession agreement I thought there is a clause where the company, because it is the term which is...
- Satish Parakh:** See, there is a clause, which one can do, but convincing by company against the government is not in good respect.
- Nitin Arora:** I just thought you did it in one of your BOT project, so just was asking on that front.
- Satish Parakh:** We did not do anything in any of the projects; it was done by L&T, our major partner.
- Nitin Arora:** Okay. Sir, with respect to your hybrid annuity project, when do you expect to start execution somewhat if you can guide us for that part?
- Satish Parakh:** See, two of the hybrid annuity projects in Karnataka we have already started execution. And for Punjab it may be in Q4, later part of Q4.
- Nitin Arora:** Sir, can you also quantify the cash loss we are making at this point in the Sambalpur project?

- Paresh Mehta:** For the Sambalpur project the cash loss for the whole year would be to the tune of around Rs. 50-odd crores.
- Nitin Arora:** Sir, has there been any tariff hike, toll hike in this quarter per say?
- Paresh Mehta:** Not in this quarter.
- Nitin Arora:** So sir two questions with respect to accounting, if I look at your depreciation on a YonY basis, on a yearly basis it has somewhat come in a quarterly run-rate of Rs. 12 crores to Rs. 13 crores versus what used to be Rs. 16 crores or Rs. 17 crores on a recurring basis, any particular reason for that?
- Paresh Mehta:** So this is basically because on the IndAS basis you are redefining the life of the asset, so that is the impact, it is more of an impact coming on the IndAS transaction.
- Nitin Arora:** And sir, the last part, when we look at the Chennai ORR and KSHIP project which was envisaged to be starting earlier, there has been a little delay with respect to that. So how we stand in terms of commissioning those two? Number one. And number two, how the bonus now will look like, will there be any part now we will be getting it?
- Satish Parakh:** Yes, Chennai ORR will get completed in Q1 and there is no likelihood of bonus, but we will not be penalized because of the force major event that occurred in monsoon last year, we already got an extension of 97 days. So within this extended period we will be trying to achieve COD. And about KSHIP also it suffered because of heavy monsoons last year, but still we will be completing within schedule, but bonus we may not get in for the projects.
- Nitin Arora:** Sir, KSHIP you are again saying in Q1 only?
- Satish Parakh:** No, it is getting completed by December end.
- Nitin Arora:** Sir just last question from my end, if I look at your standalone debt, a gross debt of Rs. 225 crores and execution run-rate of about Rs. 800 crores in the first half, where do we see that number assuming, because any which ways you have guided on a lower side because of the delays in the project. So you somewhat see the debt level at the same level going forward, at least for the next half?
- Paresh Mehta:** Yes, in the range of Rs. 250 crores.
- 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 on this margins, so I understand that you had some T&D gains this quarter, but going forward do we expect something more in terms of execution in power T&D for Q3 and Q4, or will it come back to normalized levels of 12% - 13% odd?

- Satish Parakh:** So, for the Q3 we had normalized levels, at Q4 when we will take stock of cost of completion for all these projects we may see a slight improvement because our policy of accounting is that we revisit cost to completion only once in a year. But in this year we recorded this event because the project is complete. So either the project is complete or if it is not complete then it is revisited only once in a year-end.
- Ankit Fitkariwala:** Second question is on the interest rate, so I understand that the interest rates might have come down due to refinancing in a quite a few projects, so if you can just give a ballpark range of interest across the projects, across the state's larger projects mainly?
- Paresh Mehta:** So generally Bhandara, Durg, Jaora – Nayagaon, they are in the range of between 9.5 to 10 and Sambalpur and Dhankuni are at the range of 11 which we are again targeting for touching in the next two quarters' time.
- Ankit Fitkariwala:** Secondly, I believe Bhandara and Durg were up for Tariff revision in September, right?
- Paresh Mehta:** Yes, 4th September.
- Ankit Fitkariwala:** So what has been the revision there, in both these projects?
- Paresh Mehta:** It has been (-2.4).
- Ankit Fitkariwala:** In both?
- Paresh Mehta:** Yes.
- Ankit Fitkariwala:** What is the tax rate expectation going forward, given that we had this ATIA benefit, so do we see the benefit going forward in Q3, Q4, how long do you think...
- Paresh Mehta:** Yes, so what has been done is the profits accruing to ATI eligible projects, for these two quarters have been accounted for in this quarter post our filing of our IT returns for 2016 - 2017. So, going forward the tax rate we will be claiming in ATI benefit for the profits on the EPC contracts with the government, and I think so we will be in the range of around 25% to 27%.
- Ankit Fitkariwala:** For the next few quarters is it, or like 2017 - 2018?
- Paresh Mehta:** 2017 - 2018 also would be similar, because then there is a mix which will depend on how many EPC and how many BOT, so BOT is not eligible for that, the EPC contract is only eligible for that.
- Ankit Fitkariwala:** And just one last thing on this CGD order that you said, so if you can elaborate on what is the situation like, are we bidding for more orders, what do we see in terms of profits going forward? Just a check on the industry and what are we expecting.

- Satish Parakh:** This is a small project with investment of Rs. 150 crores for next four to five years, so it is a running project for the company. And once we are able to get entire grip on the subject we can definitely look for further bidding, depending upon how this pans out.
- Ankit Fitkariwala:** And are we looking for bidding in other cities or other places also or...?
- Satish Parakh:** Presently we are focusing on getting financial closure done for this and getting started on this.
- Ankit Fitkariwala:** And what are the return ratios here, how does those get calculated?
- Satish Parakh:** We should make around 20% plus equity.
- Moderator:** Thank you. We have the next question from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Sir, in case of your Bagewadi and Hungund projects, you have given in the disclosure the debt number, but could you give us the complete project cost?
- Paresh Mehta:** So, in the Bagewadi project the project cost is around Rs. 325 crores and in the Hungund project the cost is around Rs. 295 crores.
- Ashish Shah:** And the grant in each of them will be something like Rs. 75 crores and Rs. 65 crores?
- Paresh Mehta:** Yes, Rs. 75 crores for Bagewadi and Rs. 65.57 crores for Hungud.
- Ashish Shah:** But it is funded by the banks, right, or it would be part of our equity?
- Paresh Mehta:** No, it would be funded by the banks.
- Ashish Shah:** So then your equity will be very less, I mean if we take both of them what is your combined number for equity?
- Paresh Mehta:** Approximately Rs. 110 crores odd, of which Rs. 55 crores has been invested and Rs. 55 crores is in the process of being invested.
- Ashish Shah:** Also for your HAM project now, we have given the EPC cost but what would be the financially closed cost for these projects?
- Paresh Mehta:** Approximately Rs. 1,450 crores.
- Satish Parakh:** Yes, project cost would be Rs. 1,450 crores as far as the SPV is concerned.
- Ashish Shah:** So that is the financially closed cost for the SPV?

- Paresh Mehta:** Correct.
- Ashish Shah:** And you already said that Rs. 150 crores will be our equity approximately?
- Paresh Mehta:** Right.
- Ashish Shah:** Sir, any word on how the whole compensation part is going to work out now for all the projects? I mean, there NHAI has put up something on the website and given a broad process, but is there any finality to the mechanism?
- Paresh Mehta:** So, the process as typically envisaged is extension of time for the concession period which will not be a difficult task to be done, because just 23 days to be added on each concession. On the compensation side for expenses incurred during this 23 days period, we believe that NHAI has already indicated that please submit the necessary claims. And I believe they will dispense of with the payouts in the shorter period of time.
- Ashish Shah:** So basically, your O&M cost and your interest?
- Paresh Mehta:** O&M, interest, premium...
- Ashish Shah:** Premium will get compensated?
- Paresh Mehta:** Yes.
- Ashish Shah:** And for the profit element you will have an extension in the concession period or the repayment?
- Paresh Mehta:** Yes.
- Moderator:** Thank you. We have the next question from the line of Adhidev Chattopadhyay from Emkay Global. Please go ahead.
- Adhidev Chattopadhyay:** First, again just to ask on the city gas distribution project, now this Rs. 150 crores is our equity contribution or it is the total project cost, just wanted to clarify?
- Paresh Mehta:** Total project cost.
- Adhidev Chattopadhyay:** Sir, could we just explain broadly like what is the sort of margins and all, if one could look at in this segment? And how will the accounting work?
- Paresh Mehta:** This is typically a project that will be executed over a period of five years of expenditure of Rs. 150 crores where we will be laying down the institution. As indicated we expect equity of around 20%. This typically would be funded in the ratio of 30% to 70% equity-debt ratio. And

the license will be for 25 years of gas distribution in that geographical area, which is Ratnagiri and around. And we expect to make IRR of 20% on the equity.

Adhidev Chattopadhyay: Sir just to understand, this entire EPC portion will be done by us on the laying of the pipeline and all?

Satish Parakh: Yes, it will be carried by the company.

Adhidev Chattopadhyay: And sir, could you give some color like for this project like how many bidders were there and what was the broad difference in the bid cost between you and other people?

Satish Parakh: This was a seasonal bid.

Adhidev Chattopadhyay: So we are the only bidder?

Satish Parakh: This is like group of bids, we had participated in five bids and in this project we were the only bidder.

Adhidev Chattopadhyay: Sir, but just to understand from our strategic vision why are we getting into these smaller size projects, because there is enough opportunity in roads...?

Satish Parakh: See, the company's philosophy has been always to start with a small project and then if we find comfortable with the sector then we definitely expand on it, because historically we have been doing this.

Adhidev Chattopadhyay: Sir, then next question is on ACL now, so going forward how many more projects are you looking to get into that portfolio? And considering that, now you would have to infuse most of the equity going ahead in ACL, what impact would it have on eventual dilution whenever it comes up, this I am talking about SBI, Macquarie's stake in ACL, from that point of view.

Paresh Mehta: So, we will continue to target for BOT projects, annuity or hybrid annuity or toll based projects in ACL. Over the next two years' time we would try to target something of a portfolio of around Rs. 5,000 crores in addition to the project portfolio which would entail approximately Rs. 1,200 crores to Rs. 1,500 crores kind of equity to be invested. Definitely Macquarie will not be able to fund those projects so we will fund, there would be other opportunities also available as we go along. But it is definite that as new projects come in 0:31:10.0 would dilute its stake.

Adhidev Chattopadhyay: So you are saying as we put in more of our own equity SBI and Macquarie's stake would come down to that extent?

Paresh Mehta: Right.

Adhidev Chattopadhyay: So, when is the first conversion due of the first tranche?

- Paresh Mehta:** No, there is no specific date. What would happen is whenever there is an exit, which could be there in a year's time or a two years' time, depending on their commitments to their investors, at that moment of time we will convert the CGDs which we have into equity such that the required equity sharing ratio is defined.
- Adhidev Chattopadhyay:** And sir last question, what is our order wins target for this year now? It was Rs. 2,000 crores in first half, full year what is the broad target you are looking at?
- Satish Parakh:** Another 20 hybrid annuity projects on the bid out which we will see in the last another four months, so I think definitely we should bag another Rs. 3,000 crores to Rs. 4,000 crores.
- Adhidev Chattopadhyay:** And just another question on HAM, we are seeing a lot of other bidders who have seen delays in financial closure, so this is more a industry question, do you see a lot of projects not achieving the closure and again coming up for bidding, do you see such sort of scenario based on what you know?
- Satish Parakh:** No, we have not come across such situation yet and our project is almost achieving financial closure.
- Moderator:** Thank you. We have the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** Sir, just wanted to basically check, I am sorry you have got this question many times, but just wanted to check the impact of this demonetization on the EPC business. Now we know on the toll business we have had these toll stoppage collections which will probably compensated by NHAI, but on the EPC side did you see any kind of an impact because of non-availability of labor or maybe the raw material stuck at some places, I mean, how long did that last, is it coming back to normal and how do you see that panning out in December and in the next quarter?
- Satish Parakh:** In the initial 15 days we did say some disruption at site, but since last around 10 days everything has normalized and the pace has picked up at the site as usual.
- Vibhor Singhal:** So, would you say that probably the activity is now back to normal or is it still somewhere below what...?
- Satish Parakh:** It is 100% normal now.
- Vibhor Singhal:** And sir, what has been the kind of take away from this, so the labors what we come to know are probably the most impacted, so are the payments to those labors being made through their different bank accounts which are being opened with the help of the company or there are still cash payments, what is the process of the company's following on these things?

- Satish Parakh:** See, normally we operate through subcontractors and these subcontractors in turn handle these labors, but now they are also shifting on complete cheque payments. So we definitely were handling only cheque payments with us. The subcontractor had to put in discipline of now having accounts of all the labors and all, which is being done now.
- Vibhor Singhal:** Secondly sir, just wanted to harp again on the CGD project again, we have seen that basically few years back we started bidding for these power T&D products, diversifying from the road segment into power T&D and now we are taking up the CGD orders. So, I mean, is it like kind of a strategy that we are playing out that maybe there is not enough road projects so we need to diversify across segments? Or do we see that these segments probably have lesser competition and higher IRRs, that is what is attracting us to this completely new segment?
- Satish Parakh:** See, power T&D also like any vertical and now this has completely stabilized and it is an independently a separate decision which is generating profits for the company. So power, CGD also if it picks up, we are able to put in a good team and if we are able to back some good projects it would be a completely independent vertical, irrespective of growth in road sector. Road sector is going to have a huge opportunity, no doubt about it, there are lot of EPC opportunities, lot of hybrid opportunities at the state levels and at the center, both. So these teams are completely independent and financial wise company is very well placed to grow in different sector and as well as road sector. So there is no defocusing on road, but definitely we are exploring new sectors simultaneously.
- Vibhor Singhal:** Sir, my next question is actually on the hybrid annuity project, so as you mentioned our bid cost for the product was Rs. 1,600 crores and as mentioned the cost of the SPV will be, the financial project will probably happen at Rs. 1,450 crores. So the grant component from NHAI remains 40%, that is 40% of Rs. 1,600 crores, right?
- Paresh Mehta:** Right.
- Vibhor Singhal:** So the loan that we will be availing will be for Rs. 1,450 crores minus the grant component?
- Paresh Mehta:** Yes, minus grant and minus the equity.
- Vibhor Singhal:** So basically, I mean, if I take 40% of Rs. 1,600 it comes to Rs. 640 crores, so you are looking at around Rs. 950 crores of project cost that will go...
- Paresh Mehta:** Net-net.
- Vibhor Singhal:** Yes, and out of that debt and equity will be there?
- Paresh Mehta:** Right.
- Vibhor Singhal:** And then from there on the EPC cost which you mentioned is Rs. 1,275 crores?

- Paresh Mehta:** Right.
- Vibhor Singhal:** The difference between Rs. 1,450 crores and Rs. 1,275 crores is probably
- Paresh Mehta:** IDC and other deposits which we have to maintain at the SPV level to keep the show running, because their O&M expenses and other things put together, everything put together would be around Rs. 1,450 crores.
- Vibhor Singhal:** Sir just lastly, a couple of bookkeeping questions. Sir, right now basically we have Chennai ORR in the Ashoka Concessions and the KSHIP in the ABL, right?
- Paresh Mehta:** Right.
- Vibhor Singhal:** And in KSHIP we have 100% stake?
- Paresh Mehta:** Correct.
- Vibhor Singhal:** And in the Chennai ORR we are having 50% stake, so the accounting for that will that be a JV accounting or we will probably take it through an associate?
- Paresh Mehta:** With the IndAS coming into picture it would be more of kind of a JV accounting, so our share of revenues we will be capturing.
- Vibhor Singhal:** So 50% of the revenues and everything, so it will be a proportionate consolidation?
- Paresh Mehta:** Yes, March 2017 the first time we will capture all that.
- Vibhor Singhal:** And sir in Jaora – Nayagaon we now have 74% stake with ABL?
- Paresh Mehta:** Yes, in the sense we have 37.74% stake in ABL and 37.74% in ACL.
- Vibhor Singhal:** And 26% is with SBI and Macquarie?
- Paresh Mehta:** Yes.
- Vibhor Singhal:** So we basically include these numbers both at the ACL as well as the ABL level, right?
- Paresh Mehta:** Yes.
- Vibhor Singhal:** So we would be including the toll revenues in the ACL and probably a share of profit from associates at the ABL standalone level?
- Paresh Mehta:** Correct.

- Vibhor Singhal:** And the new annuities, they remain in ABL, two annuity projects Bagewadi and Hungund?
- Paresh Mehta:** Yes, they remain in ABL.
- Moderator:** Thank you. We have the next question from the line of Rajarshi Maitra from Axis Capital. Please go ahead.
- Rajarshi Maitra:** Sir, just wanted to ask one thing, so this demonetization, is it having an impact on the traffic also on these highways, because we have been hearing that truckers they are facing payment issues and therefore some places they are not moving. So is that having an impact on traffic?
- Satish Parakh:** No, traffic has started from Saturday, so two days we have seen quite a smooth traffic flow at our plaza, there is no conjunction at all and change is also being given by truckers. So we had anticipation of having this problem for change, but practically there is absolutely no problem faced today.
- Rajarshi Maitra:** And one last question, so this FY17 guidance for EPC, what is the kind of growth that you are envisaging now?
- Paresh Mehta:** So, keeping in mind the execution which have been the postponed for the Jharkhand projects, we typically are presuming something like a 5% to 8% growth in the EPC revenues.
- Moderator:** Thank you. We have the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Sir, the first question is on Jaora – Nayagaon, now just wanted to get a sense that as per the annual report our stake is, as an AB entity within Jaora – Nayagaon is lower at about 11% or so and then we have to move to a 36% odd number. Is there a predefined valuation that you can share for this?
- Satish Parakh:** No, it is already acquired. In fact, i did not follow what you wanted because we have already paid for those 26% shares and at the appropriate time when the authority gives us permission we will transfer the shares, they are already paid for.
- Aditya Mongia:** Sir, the second question was on ACL, and essentially from our side are we open to buying out the stake of SBI and Macquarie or how do we see through it at this point of time?
- Paresh Mehta:** At this point of time presently we do not have any plans of buying out them, so they are running a process of selling the stakes but we do not have any plans immediately to buy anything from them.
- Aditya Mongia:** And in the interim if a valuation has to be decided basis which dilution of SBI and Macquarie stake happens, is there a method that you can share or is it independent valuation, how is it?

- Paresh Mehta:** There is a process laid down in the shareholder's agreement where FMV will decide, the Fair Market Value of the total portfolio will decide dilution levels. But immediately we do not see any dilution happening, because today only Kharar - Ludhiana is the new project that is to be funded for and which may be funded by ABL, but there is still time to go ahead. As and when it happens and then there is exit event, that time we will go through the FMV process wherein we will appoint independent agencies to get to the valuation and then close the valuation.
- Aditya Mongia:** Okay. On the PNG project, any update from your side incrementally which has happened recently?
- Paresh Mehta:** No, it stays as status quo as per our last call, and we are still awaiting compensation from NHAI. What we have already received is only Rs. 100 crores we had received in August 2017, one installment, but balance is, so it was an interim payment.
- Aditya Mongia:** So how much are you expecting from this project?
- Paresh Mehta:** We claimed compensation of around Rs. 1,700 crores, including equity as well as debt of around Rs. 1,200 crores and we are awaiting conclusion from NHAI.
- Aditya Mongia:** So when the Rs. 100 crores amount has been received there has been no amount suggested by NHAI that will be coming your way?
- Paresh Mehta:** No, this was mainly to take care of the latest.
- Moderator:** Thank you. We have the next question from the line of Devang Modi from Equirus Securities. Please go ahead.
- Devang Modi:** Sir, if you could just provide the details regarding what exactly changed on ground for this Rs. 16 crores to Rs. 17 crores additional EBITDA in Munger project compared to what we had assumed beforehand?
- Paresh Mehta:** So for this Munger project, we have executed this project in a very efficient manner wherein we could complete the required scope almost six months in advance which gave us an advantage of pricing vis-à-vis the input cost which was going in. And also a lot of overheads that were saved which typically went into giving this higher margin in the project.
- Devang Modi:** Sir, so is it a combination of two things, one is your efficient on-ground work which leads to a time saving? And the other thing is, you are saying some commodity movement in favor which is leading to a
- Paresh Mehta:** Yes, it is a combination of both.
- Devang Modi:** There was a price variation from the commodity so there is actually no commodity led gain, or is there a commodity led gain as well?

- Paresh Mehta:** Commodity?
- Devang Modi:** Sir, basically because of the movement of the underlying commodity is there any gain which is there, what you mentioned?
- Paresh Mehta:** Yes, there is a gain on account of commodity also.
- Devang Modi:** And given that we have as of now another Rs. 750 crores of T&D work left, do we see some more such, like what you mentioned earlier that at the end of the fourth quarter you will be taking stock with regards to the further improvement, some milestones based on this transmission project. So do you see any such chances of further EBITDA level savings happening in the other T&D projects?
- Paresh Mehta:** We believe so.
- Satish Parakh:** We have another two large projects and we believe there also we will see some upside.
- Devang Modi:** And sir finally, if you could just give some specific details on the stake with SBI, Macquarie and ACL, so currently our stake is 69%, now if we keep investing more money through Ashoka Buildcon in this ACL then how will the dilution work, is it sort of only when an exit happens then an independent valuation will be done or are there any numbers to it? Like if we put in say before any independent exit happens or before any other exit happens, if you put in another Rs. 500 crores - Rs. 600 crores in this ACL then will Macquarie's stake get diluted?
- Paresh Mehta:** The envisaged dilution timing is at the time of exit, with probability of the exit quite close I think it will be defined only at the time of exit.
- Devang Modi:** So basically sales and whatever equity investment will happen our stake will remain at 69%?
- Paresh Mehta:** 61%.
- Devang Modi:** 61%, yes, so they will be 39% and we will be 61%. And sir, what is the SPV level IRR, what you mentioned that you will be shifting, I mean the ACC margins will obviously be there in the hybrid annuity project, what will be the SPV level IRR in that case?
- Paresh Mehta:** It is almost to the tune of 17% if not more.
- Devang Modi:** In the SPV?
- Paresh Mehta:** At the SPV level.
- Devang Modi:** And sir, we have seen that in the NHAI the EPC project and working capital requirement have been on the higher side, so how do you see in this eastern peripheral expressway? Of course,

right now it is probably early days, but do you see talking about requirements going up over there going ahead?

Paresh Mehta: I do not think because of the mobilization in advance and the payment mechanism with NHAI, I do not think so it will have a pressure on the working capital requirement.

Devang Modi: And sir, apart from Sambalpur and Baragarh which are the other projects where we expect sort of cash losses under full year this year?

Paresh Mehta: See, otherwise in normal circumstances there is no other shortfall in any of the SPVs. What we will have to typically see...

Devang Modi: Sir, Dhankuni after factoring the premium could have some shortfall or...?

Paresh Mehta: No, it would not have a shortfall; premium deferment provision is sufficient enough to take care of any shortfall.

Devang Modi: So, given that you are deferring the premium so there will be no shortfall?

Paresh Mehta: No shortfall, yes.

Devang Modi: But if you factor the premium, if we factor the entire premium then there is some shortfall over there?

Paresh Mehta: Yes.

Moderator: Thank you. We have the next question from the line of Abhijeet Vara from Sundaram Mutual Fund. Please go ahead.

Abhijeet Vara: Sir first question is, the inventory level continues to remain high, earlier it used to be about Rs. 500 crores, then it jumped to Rs. 900 crores and it continues to remain high. This we were told it was because of one specific project in Bihar, now what is the status sir, because it continues to remain high, what is the reason?

Paresh Mehta: So, of course now the inventory levels at the power projects are going down, but simultaneously now we have started execution at the EPC substantially. So because they are the initial phase of investment in the EPC face the inventories would be high, the WIP would be high, which will get reduced over say a three to four months' time they will start reducing again.

Abhijeet Vara: So by March maybe it should normalize?

Paresh Mehta: Yes, we should have a lower number.

- Abhijeet Vara:** And secondly, I missed the number, have you mentioned how much bonus you will get because of this early completion in Bihar?
- Paresh Mehta:** No, we have not mentioned, we will wait when the final number comes.
- Abhijeet Vara:** And sir, what is the average traffic growth across the toll projects in this particular quarter Q2?
- Paresh Mehta:** Q2 generally we witness a reasonable traffic growth in the range of 5% to 7% to 8%, except for Dhankuni where we have witnessed almost 14% growth and at Sambalpur we have witnessed around 7% to 8% growth in this quarter, otherwise all other projects are almost in the same range, Jaora we are witnessing a low growth. So we will have to see the whole year round.
- Abhijeet Vara:** Sir my last question is, you have had good order inflow and order books over quite a few quarters now, but somehow the execution is getting impacted, it is not picking up at all, and now again this Jharkhand projects you are saying there is delay in starting the execution. So when can we see the execution commensurate to the order flow or order book you have as on date, when can that execution pickup for most of the projects? I think in the beginning of the year we were targeting 15% - 20% revenue growth, it got down to 10% - 15%, now it is again 5% to 8% because of multiple issues, but when can we see the execution growth rate coming back as per your assessment?
- Satish Parakh:** I think Q1 onwards we will see excellent growth in the execution. All our projects will be fixed up and the initial activity, low cost activities will be almost completed and which will have a good start in Q1.
- Abhijeet Vara:** Okay, probably HAM project execution work will start.
- Satish Parakh:** Yes, hybrid annuity will also start in Q1, yes.
- Abhijeet Vara:** Sir last question, what is the outlook on power T&D sir, order inflow?
- Satish Parakh:** Power T&D, we are expecting a good set of orders in Bihar and we are participating in Jharkhand too. So power T&D outflow order should be around, we should do around Rs. 800 crores to Rs. 1,000 crores.
- Abhijeet Vara:** In the second half?
- Satish Parakh:** By the end of the year, but it is only Q4.
- Abhijeet Vara:** But you may end up with something like Rs. 8,000 crores of order book by the end of the year?
- Satish Parakh:** Rs. 800 crores?

- Abhijeet Vara:** Rs. 8,000 crores.
- Satish Parakh:** Rs. 800 crores to Rs. 1000 crores is what we should be winning.
- Abhijeet Vara:** In power?
- Satish Parakh:** What we are participating is around Rs. 4,000 crores to Rs. 5,000 crores, but what we expect to get is around Rs. 800 crores to Rs. 1,000 crores.
- Abhijeet Vara:** No sir, what I mentioned was you are targeting Rs. 3,000 crores in roads and Rs. 1,000 crores in T&D, already you have Rs. 5,500 crores of order book. If you have supposed 15% - 20% execution growth rate in the second half to match 5% - 8%, then you will end up with Rs. 8,500 crores sort of order book.
- Paresh Mehta:** Right.
- Moderator:** Thank you. We have the next question from the line of Parvez Akhtar from Edelweiss Capital. Please go ahead.
- Parvez Akhtar:** Sir, a couple of questions. One is, what is the reason behind this quite high traffic growth in Dhankuni? Have we done some study on it, and to what extent and what time can we expect such high growth?
- Satish Parakh:** On the Dhankuni side, there's a lot of traffic from the port side, so that is giving an addition to that area. And a bit of localized economic activity between Orissa and West Bengal which is giving rise to this revenue, which you can see in both the projects, Dhankuni as well as Sambalpur.
- Parvez Akhtar:** And sir, what is our sense of the competitive intensity in both EPC and hybrid annuity projects that we are bidding currently?
- Satish Parakh:** Competition will still persist in the market and we are seeing good amount of competition in hybrid annuity and road EPC, but there are huge number of projects also which are coming up. So the competition varies from regions to region and project to project and state to state.
- Parvez Akhtar:** Sir, do we expect a situation that because of the large number of HAM projects the equity IRRs may probably inch up to 20% odd as we go ahead?
- Satish Parakh:** There is every possibility of IRRs going up, because bidding capacities of most of the players are now getting exhausted, but we are seeing some new players also entering. But 20 projects is a huge kind of order intake to come up, so definitely we should get projects with better margins.

- Parvez Akhtar:** And sir on the CGD project, will we be doing the EPC work and what would be the kind of EBITDA margins that we have envisaged in that?
- Paresh Mehta:** Ashoka Buildcon will be executing the EPC contract and we would have EBITDA margins in the range of 12% - 12.5%.
- Moderator:** Thank you. We have the next question from the line of Manish Goel from Enam Holdings. Please go ahead.
- Manish Goel:** Just to clarify, you mentioned on FY17 guidance on EBITDA margin at 12% to 12.5%, is it right?
- Paresh Mehta:** Yes, that would be on the EPC execution. On an overall, including other income, it would be in the range of 14.5%.
- Manish Goel:** So, if I look at half year FY17, if I probably look at your EBITDA margin excluding other income it is at 14.2%, so is it that the second half will see a EBITDA margin of 10% - 11%?
- Paresh Mehta:** No, it will be in the range of 12% - 12.5% and then we will come to a range of 12.5% to 13%. Then what we will arrive is at around 14% because we will have a larger turnover second half. And also as we have indicated, we will have certain extra margins coming in from two large power projects which we are executing now which we will see completion and better efficiencies panning out.
- Manish Goel:** So, power T&D margins are a little lower than the roads, that is what you are trying to say?
- Paresh Mehta:** Yes, generally lower but this year they will probably because of the price benefits and better efficiency in state like Bihar we expect slightly higher EBITDA margins.
- Manish Goel:** Then 13% is on a conservative side, you are saying?
- Paresh Mehta:** Yes, definitely.
- Manish Goel:** And order inflow, you mentioned that in second half you expect Rs. 3,000 crores order inflow in roads and Rs. 800 crores to Rs. 1000 crores in power T&D, right?
- Paresh Mehta:** Yes.
- Manish Goel:** And just to clarify on Ashoka Concession, you said that in next two to three years you are looking to build up a portfolio of Rs. 5,000 crores which will require equity of Rs. 1,200 crores?
- Paresh Mehta:** Right.

- Manish Goel:** And Macquarie will not put in any incremental equity going forward?
- Paresh Mehta:** No.
- Manish Goel:** So Ashoka will fund the entire incremental equity investment?
- Paresh Mehta:** Yes, there could be various other opportunities, Ashoka would fund it or we can invite other investors, or at SPV level also...
- Satish Parakh:** Normal equity requirement for hybrid annuity would be around 12% to 15%, so it should be around Rs. 600 crores to Rs. 800 crores equity will be required in entire portfolio's hybrid annuity.
- Manish Goel:** In next two to three years, okay. Because then for bringing in additional equity or a new investor there should be some conditions laid out with Macquarie, right?
- Paresh Mehta:** Yes, that would happen definitely.
- Manish Goel:** And you expect the valuation of the portfolio to be done by when and when do you think the conversion of Macquarie equity will happen?
- Paresh Mehta:** See, this would be at the time of an exit, so we are working out at various options for exit, I mean, they are looking out for an exit. So we will wait at the right opportune time.
- Manish Goel:** But is it in next 12 to 15 months?
- Paresh Mehta:** So, our first figure of exit happens in January-February 2018.
- Moderator:** Thank you. We have the next question from the line of Rajiv Mehra from JM Financial. Please go ahead.
- Rajiv Mehra:** I just had a few clarification questions, if you could just quantify the loss of toll revenue which happened because of the toll collection which was not being done and how much is NHAI going to compensate and how is that process going to happen? Maybe I have missed that if you have already answered.
- Paresh Mehta:** So, for the 23 days where we were unable to collect toll, the amount could be in the range of Rs. 60 crores odd, all the projects in our portfolio. Now, definitely everything of it will be compensated, the days of toll collection lost which was there, 23 days, would convert into number of extra days in the concession agreement. So from that perspective literally we are to no loss. And also whatever expenses have been incurred during these 23 days would be reimbursed by NHAI shortly.
- Rajiv Mehra:** And that will get 100% what they are talking about?

- Paresh Mehta:** Yes, it will be 100%, the first installment may be 90% and then 10% would be released later on once the final assessment has been done.
- Rajiv Mehra:** And just to clarify again, the FY17 order book guidance which you have said that by the end of the year you will be closing the order book at around Rs. 8,500 crores, did I get that number correct?
- Paresh Mehta:** Yes, this is based on what we have achieved for the road and the power sector, new orders around Rs. 3,000 crores plus Rs. 1,000 crores, if that is achieved then probably we will definitely achieve this Rs. 8,000 number.
- Rajiv Mehra:** And just coming on my final question on the city gas distribution we have just newly ventured into, I think the order which we have won recently is of Rs. 500 crores where Rs. 150 crores have to be invested over the next three to four years, if I have got that right. So what are your plans to build on to that business and how is that going to be growing in your scheme of things?
- Paresh Mehta:** So the investment in the next initial project investment in the next five years is Rs. 150 crores and the balance investment will be based approximately to the tune of another Rs. 150-odd crores over the span of 20 years, additional 20 years, so total 25 years of license is available. So this is what is the project layout. And the second question you had was?
- Rajiv Mehra:** What are the further plans to further bid or participate into the gas distribution businesses and all?
- Satish Parakh:** Depending on this first one stands out then we will be deciding the strategy on further participation.
- Moderator:** Thank you. We have the next question from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Sir, is there any revelation to the earlier indicated project cost for Chennai and KSHIP? Now that we have seen some months of delay, so Chennai ORR, the last cost that we had was about Rs. 1,440 crores and KSHIP was Rs. 470-odd crores, so has there been any change or this will be the final cost on COD?
- Satish Parakh:** As far as Mudhol-Nipani is concerned, I think we will be within the budget of that cost. On the Chennai ORR, we probably could run into the IDC portion, otherwise EPC cost is freed, so there will be additional IDF for two to three months' time, from September to December.
- Moderator:** Thank you. We have the next question from the line of Sandeep Jagwani from Namolia Securities Ltd. Please go ahead.

- Sandeep Jagwani:** Sir, I just wanted to know after our toll collection is suspended for 23 days so did we see any stretch of working due to this suspension of toll?
- Paresh Mehta:** No, we do not see any kind of working capital impact on this vis-à-vis even if you talking from the SPVs point of view. So NHAI as it is going to fund for all expenses which have been incurred for the 23 days, so I think from a cash flow perspective it is just few days' time when NHAI will compensate and this will be brought to tracks.
- Sandeep Jagwani:** So by when we expect the NHAI will compensate this revenue loss of around Rs. 60 crores?
- Paresh Mehta:** We still have to wait, on the revenue loss of Rs. 60 crores will be typically by way of extension of time, so that is in cash. The compensation would be for all expenses, including interest, during these 23 days.
- Sandeep Jagwani:** And what will be the CAPEX for the second half?
- Paresh Mehta:** CAPEX for the second half should not be very significant, it would be approximately we will have to initially put some equity, so approximately Rs. 70-odd crores of equity to be funded for Kharar to Ludhiana project by the end of February at the point of financial closure. Otherwise Bagewadi up to March is invested for, and equipment CAPEX would be to the tune of Rs. 20-odd crores.
- Moderator:** Thank you. We have the next question from the line of Ankit Fitkariwala from Jefferies. Please go ahead.
- Ankit Fitkariwala:** Paresh, just a small clarification on this compensation that you said, so basically you are saying for the revenue loss on toll we will get an extension of 23 days when we will have to bear our expenses on our own. But whatever was the current expenses that we have borne in these last 23 days, that will be paid by NHAI in cash right?
- Paresh Mehta:** Yes, in cash, that is true.
- Ankit Fitkariwala:** But we do not have a timeline as to when that cash comes?
- Paresh Mehta:** Yes, we are still working out the modalities but I do not think it should be too long.
- Moderator:** Thank you. We have the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Sir, just a data point, what amount have we paid for increasing our stake on Jaora – Nayagaon project from 10.5% to 36%, what is the amount we have paid for that?
- Paresh Mehta:** Approximately to the tune of Rs. 170-odd crores for the 26%, but they are all structured, they are already negotiated deals long time back.

- Aditya Mongia:** So Rs. 170 crores which will take the stakes from 10% odd to 37%?
- Paresh Mehta:** Yes.
- Aditya Mongia:** And it will reflect in actual stake only over a period of time?
- Paresh Mehta:** Yes.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Anupam Gupta from IIFL Capital for closing comments.
- Anupam Gupta:** Thank you, everyone. And a special thanks to the management for taking out time for this call. Sir, if you have any further comments, then we can close the call.
- Satish Parakh:** Thank you, everyone, for participating in this Q2 FY17 earnings call. We have uploaded the analyst presentation of our company on our website. In case of any further queries, you may get in touch with Mr. Gaurang from Stellar Investors Relations and with us at any time. Thank you very much for the participation. Good day.
- Moderator:** Thank you very much. On behalf of IIFL Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.