

Transcript

“Ashoka Buildcon Limited 1Q FY-16 Earnings Conference Call”



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Presentation Session

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Moderator: Ladies and gentlemen, good day and welcome to Ashoka Buildcon Limited Q1 FY 2016 Earnings Conference Call, hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Viral Shah of SBI Cap Securities. Thank you and over to you Sir!

Viral Shah: Thanks operator. Good morning everyone. We really thank everyone for participating in the call. We have with us the management of Ashoka Buildcon. We have Mr. Paresh Mehta, the CFO of the company, Mr. Satish Parakh will join us shortly on the call. We will start with the opening remarks from Mr. Paresh Mehta. Over to you Sir.

Paresh Mehta: Good morning everybody, a warm welcome for the earnings call for the quarter, apologies for Mr. Parakh not having joined immediately. He will join us short while. He is in a flight. I have along with me stellar investor relations, our IR advisors also. Let me start with certain updates. The year has started on a positive note with increased bidding activity on part of NHAI. The government has set a target to award road projects worth 1.26 lakh Crores during the current fiscal covering a length of 12,900 kilometers of which NHAI will spend the highest, about Rs. 72,000 Crores. After having awarded total 3000 kilometers road projects in FY 2015 NHAI target is to bid nearly 9000 kilometers of projects in FY 2016 including both EPC and BOT with approximately 50%, 50% share. In the first quarter NHAI has bid out projects worth 25,000 Crores and maybe up to July 31 around 48,000 Crores and we expect bidding activities to continue for the rest of the year as well.

As far as Ashoka Buildcon is concerned, Ashoka Buildcon is strongly positioned to bid for road projects. As you are aware our current portfolio is fully funded and we have successful QIP of Rs. 500 Crores. ABL has a robust balance sheet, strong domain expertise and proven execution capacity. We are actively participating in these bidding processes for EPC as well as BOT projects but with our targeted margins intact. We are looking forward for projects where the competition is reasonable and once that fits our investment matrix. We have bid for few projects in the recent past and have been declared lowest bidders for some of them. We shall share further details of these projects once we receive LOA.

To brief you on the major developments during the quarter in the Durg Project, during the quarter Durg project completed refinance of its debt of Rs. 363 Crores with IDFC Limited. After refinancing the interest cost has been reduced to 10.75% per annum resulting in a saving of 170 basis points and also getting an extension of repayment period.

In the Pune Shirur arbitration development we are also happy to state that the SPV Ashoka Infrastructure Limited which takes care of this project has received an arbitral award aggregating to 90 Crores of rupees against various claims filed by the SPV. This amount will further receive an interest from July 6 till the final date of payment. This is another project where we have won arbitration. We have history of projects being won on arbitrations.

Status of the current projects is on execution front, we currently have three projects under construction all of which are progressing as per schedule. The company has completed 95% of the Dhankuni-Kharagpur Project, 69% in the Chennai ORR project and 30% in the KSHIP projects.

As far as traffic growth is concerned we have witnessed traffic growth over the last four quarters. The traffic growth in various projects is in the range of 6-9% in the last quarter.

Our current order book position is 2833 Crores of which road projects are 1258 Crores and 1575 Crores on the power T&D front. During the quarter we have received one EPC contract from MORTH of Rs. 111 Crores for a project at Karnataka.

Now, we can turn to the financial updates for Q1 FY 2016. You must have had a look at the presentations already circulated and uploaded on our website. Our consolidated total income including other incomes for Q1 FY 2016 is 639 Crores as compared to Rs. 634 Crores in FY 2015. Construction revenue is Rs. 467 Crores; it was 524 in the corresponding period in the previous year. The toll revenues are 170 Crores in Q1 FY 2016 as compared to 110 in Q1 FY 2015 showing a growth of 57%. During Q1 FY 2016 BOT division recorded a toll collection of 250 Crores of which 172 Crores is recognized as toll revenue and 78 Crores is from associate companies. This includes tolls connected in Dewas and Katni project under High Court orders but they are not being recognized as revenues in financials. We have been collecting toll in all our portfolio except for the annuities which are yet to start namely Chennai ORR and KSHIP projects.

Our EBITDA for Q1 FY 2016 should at 193 Crores compared to 145 Crores in the corresponding quarter last year showing a year-on-year growth of 33%. Interest cost has gone up to 114 Crores compared to 47 Crores previous year. This increase cost in interest is mainly due to capitalization of Sambalpur project in October 2014 and the Dhankuni project in March 2015.

On the balance sheet side our consolidated net worth including minority interest is 2338 Crores. Our total consolidated gross debt is 3510 Crores; the gross debt at the standalone level is 197 Crores which comprises of 45 Crores of equipment loan, 2 Crores in working capital finance and 150 Crores of non-convertible debentures raised in November 2015. Cash and bank balances included in the current investments stood at 134 Crores as of June 30, 2015. As you are aware we did a QIP of Rs. 500 Crores in FY 2016, currently the proceeds have been used to reduce working capital loans and invested in debt mutual funds. With this short update we would leave the floor open for question and answers. Thank you very much.

- Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. First question is from Amit Sinha of Macquarie, please go ahead.
- Amit Sinha:** Hi Sir, good morning. My first question is on your interest cost for the operational projects. After the refinancing of these projects what is the interest cost now of the overall portfolio?
- Paresh Mehta:** Across the portfolio the interest cost could be in the range of 11.5 to 11.7.
- Amit Sinha:** This is including the under construction projects right?
- Paresh Mehta:** This is including the under construction projects which are due for refinancing or on the COD dates.
- Amit Sinha:** What would be that number for the operational project?
- Paresh Mehta:** For the operational project the interest cost could be in the range of around 11% blended, but certain projects Belgaum, the refinance is yet to happen, so that will happen in course of time.
- Amit Sinha:** Sir now with the order book standing at around 2800 Crores and especially in the road side we are looking at an order book decline, so what would be your rough number for FY 2016 revenue for the construction business?
- Paresh Mehta:** Based on the current order book position we believe that we will definitely target to achieve a 15% growth on our previous year revenue with certain projects coming in, probably should be 1000 Crores coming in due time, we probably will achieve a 15% growth on the last year standalone.
- Amit Sinha:** What will be the margins for this year?
- Paresh Mehta:** Margins typically would continue to remain similar as far as EBITDA is concerned on the roads in the range of 12-12.5% and on the power is around 10%.
- Amit Sinha:** Finally Sir, I understand that basically you have not officially highlighted the L1 projects which you bagged in the last quarter but what is the nature of these projects, are these NHAI projects or state government projects?
- Paresh Mehta:** It is a mix of them. There is an EPC project of NHAI. There are NET projects of state.
- Amit Sinha:** Any number for the overall L1 projects?
- Paresh Mehta:** Could be around 800 Crores.
- Moderator:** The next question is from Nitin Arora of Emkay Global, please go ahead.
- Nitin Arora:** Sir, can you give us a sense what was the tariff hike across projects from April to June quarter, if you can name it by project like Dhankuni, Indore, Edalabad, Jaora.
- Paresh Mehta:** On the Belgaum-Dharwad project we had a toll right division of around 2.6%. On Dhankuni-Kharagpur again we had a roll right raise of 2.6%. In Bhandara and Durg we did not have a toll right now, we expect a toll right after September 1 in the range of around 2%. In the Jaora project we had a toll rate raise of 7%. In the Pimpalgaon-Gonde project we had a toll rate rise of 2.6%. Sambalpur again it is 2.6%. In the other ABL standalone projects in the Aurangabad project we did not have a toll rate rise. In the Indore Edalabad project we had a toll rate rise of 7%. In Wainganga Bridge we did not have a toll rate rise in this quarter. We expect it in the next quarter. Dewas project had a toll rate raise of 21% in the start of this year. Katni bypass there was no toll rate rise and other projects were not having any toll rate rise.
- Nitin Arora:** Sir in terms of the arbitral award which you have received, which you have mentioning, how you will do the accounting for this now?
- Paresh Mehta:** There will be no accounting impact. As the company's policy goes we do not recognize any of these arbitration awards which we get until it has come to a state of finality when actually the amounts will flow in to the company and there is no to-be litigation pending in the project. So as far as accounts goes no accounting entry will be done in the books till the finality of the issue.

- Nitin Arora:** So you are saying that when it gets realized then I will do the accounting entry?
- Paresh Mehta:** Realized or when it is certain, there is no other challenge in the higher courts, and then we will recognize that revenue. As of date it is not recognized in the books. It is not in the current books anymore.
- Nitin Arora:** Sir, in terms of equity requirement any amount still left to be put in?
- Paresh Mehta:** It is only for the Karnataka project, around say 15 odd Crores which is left out which will be put over a period of time.
- Nitin Arora:** Sir in terms of your EPC margin, solid margins came in this quarter, you mentioned in the presentation that is largely because of the reduction in the petroleum product prices, how do you see the cost saving benefit for the whole year as such, is it something you still or it has been on the bottom side where you can see some increase coming in?
- Paresh Mehta:** No, it could probably remain similar for the road project but the road execution is not very significantly left out, so impact will not continue for the whole year. Margins will be rationalized in the next two quarters. It remains at what generally we have been in the range of 13 to 14% EBITDA margins the mix including other incomes.
- Nitin Arora:** Sir, what has happened in the Pimpalgaon project, the per day toll collection seems to be again coming down, so any particular reason, I think we did about 22 lakhs from about 27 lakhs in the last quarter, so any particular reason for that?
- Paresh Mehta:** There was a one-off incident of strike in this project for 16 days. There was a problem in the toll plaza and that is the reason the traffic is down, so 16 days we could not collect toll on that project.
- Nitin Arora:** Has it now been normalized Sir?
- Paresh Mehta:** Yes, now it has been normalized.
- Nitin Arora:** Sir you said that you are L1 in the annuity income of the NHAI projects, sir this L1 normally we announce it when we are the lowest bidder even though we do not sign a LOA, correct me if I am wrong, so has there been any change?
- Paresh Mehta:** As a policy for quite some time we have been declaring once we get the LOA from the government, so LOA has not yet been received, so once the LOA is received from final L1 and to LOA there could be any change, so we do not want to commit anything. We are waiting for the LOA, once the LOA is there we will announce.
- Nitin Arora:** That you are saying about 800 Crores.
- Moderator:** Thank you. Our next question is from Adhidev Chattopadhyay of Elara Capital, please go ahead.
- Adhidev C.:** Thanks Sir for taking my question. Firstly just wanted to understand of the total opportunity you said what is the amount of projects that we have bid for till, that means overall wherever we have participated, you had said 48000 Crores up to July, so we have participated in how much out of this roughly?
- Paresh Mehta:** We had participated around say 14,100 Crores.
- Adhidev C.:** Any rough breakup between EPC BOT, is it 50:50 or is it like?
- Paresh Mehta:** 10,000 in the EPC space and 4000 in the BOT space.
- Adhidev C.:** Okay sir, then in terms of order intake would you like to give us any guidance for this year FY 2016 what are you looking at, how the bidding has happened in the initial four months, what is the order intake now you are targeting?
- Paresh Mehta:** We continue to put our order intake of around 1200-1500 Crores on the EPC side and on 1500 Crores on the BOT side and we will maintain the target. The pipeline still sufficient and with the initial round of bidding having taken place wherever there was urgency for people to get contracts I believe that would have got over and I am sure in the next round of bidding we should get our share of order book with our share of margins, our hurdle rates.

- Adhidev C.:** Sir, just to continue on the bidding between the NHAI and MORTH where have you seen more tenders being opened and in the coming months now, do you see more of MORTH orders or NHAI orders coming up for bidding now?
- Paresh Mehta:** NHAI generally is larger in quantity, so it would always be NHAI more bidding happening.
- Adhidev C.:** Sir, the reason I am asking this is like lot of these hybrid projects are expected to come only from November-December onwards, the hybrid annuity from NHAI, means lot of bidding has already happened in NHAI, so just wondering like our order wins will be back ended, you are expecting more in the second half of this year or you still expecting?
- Paresh Mehta:** We cannot put timelines to that because opportunity could be even tomorrow or otherwise, but we are hopeful that whatever aggression is there has slightly subsided and we will get our order books, so we should keep the timelines maybe September 30 we should definitely get some big size orders.
- Adhidev C.:** Sir at state level which are the states you are seeing the PWD is giving maximum order this year, states?
- Paresh Mehta:** There are states like Karnataka, Andhra, Madhya Pradesh, some states in Gujarat, Punjab. There are states which are there, maybe West Bengal also, so Orissa also there, these four, five states are slightly active.
- Moderator:** Thank you. We will take the next question from Vibhor Singhal of Phillip Capital. Please go ahead.
- Vibhor Singhal:** Good morning sir. Thanks for taking my question. I wanted to understand on the Dhankuni Kharagpur project sir, you mentioned that we started capitalizing this project from March itself, so basically from this quarter onwards I think we are including the revenue of the Dhankuni Kharagpur project in the overall top line that is the report, so I just wanted to understand what is the treatment for the premium that we are doing for this, because if I'm correct we are still awaiting our approval of the premium re-schedulement for this, so are we still paying the original annuity and what is the accounting treatment that we are doing for it?
- Paresh Mehta:** As for the accounting treatment is concerned, we have capitalized the toll revenues including future toll revenue, the commitment and then we are amortizing the full cost of annuities to be paid over a period of time based on revenue collection, so the total cost incurred for construction of the road, that is the annuity payable throughout the project, the total amount has been capitalized and the amount has been just below the line. As far as the deferral proposal is concerned, the deferral proposal will only have an impact on the cash flows, otherwise there is no, accounting system did not have major impact, what has happened is once we start deferring this premium payable we will recognize that as whatever deferred amount is billed because I do not form any cheque and the balance amount will continue to make that amount payable to NHAI as a deferred liability.
- Vibhor Singhal:** So basically you mean to say right now we are paying the actual premium that we were supposed to pay right, in terms of cash flow?
- Paresh Mehta:** Yes, in terms of cash flow, correct.
- Vibhor Singhal:** So the premium for this project was around Rs.126 Crores to begin with, so today it might be let us say around Rs.140, Rs.145 Crores, so that comes out to be around Rs.40, Rs.45 Crores of premium per quarter?
- Paresh Mehta:** Correct.
- Vibhor Singhal:** Against a toll collection of approximately Rs.58 Crores that we did this quarter, Rs.45 Crores probably would have gone as a premium?
- Paresh Mehta:** Correct.
- Vibhor Singhal:** And this would have been included in the depreciation amount, am I right in that?
- Paresh Mehta:** Pardon, this –
- Vibhor Singhal:** This Rs.45 Crores of premium would be reflected in the depreciation amount?

- Paresh Mehta:** Yes, but it would not be equated because this depreciation now is being charged on a revenue amortization method, so the component of depreciation of this premium would be comparatively less.
- Vibhor Singhal:** Would you be able to quantify what would be the amount of depreciation that we charge for this quarter for Dhankuni?
- Paresh Mehta:** For Dhankuni, I will just come back; Rs.18 Crores is the total depreciation charge for this quarter, so if you put a ratio of 45% would be the portion pertaining to premium.
- Vibhor Singhal:** 25% would be premium.
- Paresh Mehta:** Sorry 75% would be premium.
- Vibhor Singhal:** 75% would be premium, okay and the remaining would be the normal capex depreciation right?
- Paresh Mehta:** Yes, right.
- Vibhor Singhal:** Okay and this methodology will continue, so after deferment if just the depreciation amount will remain the same and our interest expense is going to increase because interest expense will be the amount that we would be paying on the premium that we are deferring right?
- Paresh Mehta:** Correct.
- Vibhor Singhal:** Okay perfect, right also sir basically if I can ask another question on the second project which is your Jaora Nayagaon project, so Jaora Nayagaon project is actually seen a decent toll collection hike in this quarter, was that majorly because of the 7% tariff hike that we see or is there some kind of traffic growth also that we have seen in this project?
- Paresh Mehta:** No it is a general trend on that route if you have seen the traffic jam, otherwise 7% is no doubt intact out of it, so if you see our Q and Q growth on this project you are typically seeing 20% growth of which 7% is toll rate and 13% is attributable to traffic growth –
- Vibhor Singhal:** Traffic growth, very enough, so my last question, I mean you mentioned of states like Maharashtra, Karnataka and AP basically giving out orders, are we seeing a significant orders from the UP State Government also and are we bidding for them as well?
- Paresh Mehta:** There are few projects coming in the UP also, but we are generally selective or may be tend to avoid UP, other state.
- Vibhor Singhal:** Because probably the government does not pay upon time and because of reasons like that, is it?
- Paresh Mehta:** Execution also, so we prefer state like Bihar to UP to bid for.
- Moderator:** Thank you. The next question is from Devang Modi of Equirus Securities. Please go ahead.
- Devang Modi:** Hello sir, we understand that we are eligible for bonus annuity in Chennai ORR, so I just wanted to know the date by which we have to complete Chennai ORR to obtain that bonus annuity sir?
- Paresh Mehta:** In case the Chennai ORR if we complete by 31st March 2016 then we would be eligible for the premium bonus.
- Devang Modi:** When we say we need to complete, we need to be at for 75, 90 or net percent completion certificate or how do that work?
- Paresh Mehta:** No it talks about 100% completion, just to clarify the 90% clause is for annuity, so in case there is delay, but if you have finished 90% or so your annuity will still start, so this is a situation where you on the scheduled completion date if you have not completed 100%, but completed 98% your premium is still receivable, but of course you are not targeting -
- Devang Modi:** You will get the bonus annuity?

- Paresh Mehta:** But then, we are not even targeting that clause of the agreement, we are more targeting to the bonus clause where we are targeting 100% completion on March 2016.
- Devang Modi:** Currently after post this whatever the strike that had happened at Pimpalgaon - Nashik, what are the current levels of daily toll collection that we are seeing over there?
- Paresh Mehta:** They are in the range of around 24, 25, this is due to rainy season, which will pickup, it will be stand at around 26, 27 easily.
- Devang Modi:** Sir, in Sambalpur - Baragarh currently are we collecting for 100% of the stretch?
- Paresh Mehta:** Not yet sir, we are still awaiting PC file COD from them and we should finish it by 31st August that is what our target is.
- Devang Modi:** As of now this is only 75%.
- Paresh Mehta:** It is not 75%, it is around 80%.
- Devang Modi:** 80% and would it be a linear change, I mean if you are able to collect 100 should your toll basically be 1.25 times, should that be the calculation or it will be higher because the new toll plaza might come up?
- Paresh Mehta:** There is no new toll plaza, what is happening is suppose we had completed 83% of the work, 83% of the toll rate was given to us in the notification, once you complete 100% of work the 83% toll rates would be adjusted to 100%.
- Devang Modi:** Completely pro rata.
- Paresh Mehta:** Pro rata.
- Devang Modi:** Sir, are we seeing any leakage of profit or anything over here and currently any leakage of revenue?
- Paresh Mehta:** There are few people who were not paying, because they are insisting for total road to be completed and we are given that comfort, when that is complete approximately 1.5 lakh could also come as a, people who are not paying and will start paying once COD achieved.
- Devang Modi:** Before 1.5 coming still it would be 11.5 to 12 Lakhs a day.
- Paresh Mehta:** And then the rate revision would be approximately bring it to around, 13, 13.5 lakhs.
- Devang Modi:** The rate revision will be lower right, I mean this will be a hardly 3 odd percent rate revision, it will be higher?
- Paresh Mehta:** No rate revision I'm talking due to COD.
- Devang Modi:** Okay there will be another 10% push from the COD rate revision?
- Paresh Mehta:** More than 10, it is around 15% to 17%.
- Devang Modi:** Okay because of 83 to 100 basically. All right, that is it from my side, thanks.
- Moderator:** Thank you. The next question is from Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Hi sir, what is the status of premium re-scheduling approval for Dhankuni?
- Paresh Mehta:** It has been approved by the board; we are awaiting the letter anytime, so we will start deferring from July onwards.
- Moderator:** Thank you, next question is from Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Good afternoon sir, sir my first question was on this opportunity that you were highlighting in the road front, so Rs.48,000 Crores of orders is what you think NHAI and MORTH have awarded till now right?
- Paresh Mehta:** Yes they have done RFB's for the same up to July end.
- Aditya Mongia:** RFB's and what is the quantum of awards from both these entities till now?

- Paresh Mehta:** I think so they must have complete almost 80, 85% award, they might have already given; balance must be under stage of giving the LOA.
- Aditya Mongia:** Sir my second question was more on Ashoka Buildcon results, on the BOT side of things once we start in terms of the margin, which the company report just thought I will check up with you whether Q1 is seasonally strong quarter or how do we take this 67% EBITDA margin in Q1 versus lower number for the full of last year?
- Paresh Mehta:** What happens is when you have a new project coming into the portfolio you see a change in the EBITDA levels, so the EBITDA levels at Dhankuni are slightly better than the projects say Bhandara and Durg, so you are seeing a slight upward in the EBITDA margins for this quarter, vis-a-vis though it is around 67% against 73%, this 67% EBITDA levels is also dampened due to certain projects where we had stopped collecting tolls, so that is the reason most of that drop is there, otherwise you could have easily maintain that 73% of EBITDA level.
- Aditya Mongia:** Sir my question was that the number which was 73% the first quarter declined incrementally and the FY number was lesser, now it is 67% in this quarter?
- Paresh Mehta:** Q2 will be lower definitely.
- Aditya Mongia:** This was also reduced through the year right, is that the way one should be decrease the –
- Paresh Mehta:** Reduce in Q2 and then will start improving in Q3 and Q4.
- Aditya Mongia:** What is the logic behind this and what happens exactly?
- Paresh Mehta:** The rainy reason, very low moment of goods which happened, so post around June, June onwards the traffic starts falling and then they start picking up just before the Dussehra. In Dussehra, up to Diwali there is a good pick then after December when harvesting happens then there is a good uptake because both industrial and the agriculture has an impact of the seasonal impact and industrial activity generally we find that last quarter is a good pickup because people try to achieve manufacturing targets and sales targets.
- Aditya Mongia:** Okay, sir my last question is just a clarification from your side on this bonus annuity, which can come for Chennai this essentially means that instead of say annuity payment there will be one more how do we take this bonus annuity thing which should –
- Paresh Mehta:** Typically this is a 20 years concession where we have a two-and-a-half year of construction, that means 17.5 year of annuity payments is typically works out with 35 annuity payments, this 35 would become 36.
- Moderator:** Thank you. Next question is from the Achint Bhagat from the Ambit Capital. Please go ahead.
- Achint Bhagat:** Good morning sir, I am sorry for dialing late in the call, so my question could be a little repetitive, sir you highlighted during the call on your L1 in the project, in which you have been L1 could you repeat that number please, what would be the overall quantum?
- Paresh Mehta:** Approximate almost it is around Rs.800 Crores.
- Achint Bhagat:** 800 Crores is all EPC, is it?
- Paresh Mehta:** This is break up of EPC and BOT.
- Achint Bhagat:** Within Rs.800 Crores there will be EPC and BOT?
- Paresh Mehta:** Contracts which we have won.
- Achint Bhagat:** What is the typical size or ticket size of the contract that the energy has been awarding because our recent check suggest that recently the order size and itself has reduced significantly from what it used to be in yesteryears?
- Paresh Mehta:** It is true they have tried to reduce the size of contract to get more responses and go more bidding and they believe that have been successful to so, then this project size has been in the range of Rs.500 to Rs.700 Crores, 800 Crores.

- Achint Bhagat:** Sir has that mean that given that the ticket size is fairly small and which will give rise from regional competitor and then fragmentation due to think that the bidding aggression will remain especially in the EPC side of the contracts where in, so you have been saying that the recent bids also remain aggressive?
- Paresh Mehta:** There are aggressions, but what will happen the smaller contracts will get qualification norms exhausted, so then they automatically get, will not be bidding in the next round of projects because their qualification criteria itself are not so big, there is one contract itself will probably put them on the side.
- Achint Bhagat:** And sir is there any difference in margin for executing the smaller contract let us say Rs.300, Rs.400 Crores and some states vis-à-vis correcting with vis-à-vis executing a larger Rs.1200, Rs.1300 Crores contract, is there any savings in mobilization, demobilization, etc?
- Paresh Mehta:** Definitely, scale of operation will have an impact on the margins, so companies like Ashoka Buildcon would typically have a better margin in the larger size of project.
- Achint Bhagat:** So in Rs.800 Crore contract that you are talking about which are L1, how many contract comprises toward basically I am trying to see the ticket size of the orders?
- Paresh Mehta:** This would be with margins comparatively may be a lower by 0.5% or 1% that will just.
- Achint Bhagat:** Lastly in the last three months seen that after a fairly long bit of time there have been few BOT contracts that have been awarded, so have you been seeing the BOT interest coming back and more and more BOT projects being awarded by the NHAI even without the hybrid mode, I think in the last quarter about three or four BOT contracts have been awarded by the NHAI.
- Paresh Mehta:** That is true. There is a bit of interest, no doubt about BOT project, but I think so NHAI is quite clear that they will more favor the hybrid model, so that scale of operation is larger with whatever limited equity which is available in the industry.
- Achint Bhagat:** What is your sense on the aggression of these recent BOT contracts, do you think these were at fairly remunerative terms, so you think that they were aggressive based on your hurdle rate?
- Paresh Mehta:** Generally aggressive.
- Moderator:** Thank you. The next question is from Apurva Kumar of Jefferies. Please go ahead.
- Apurva Kumar:** Hi sir. Thanks for the opportunity, I do not know whether you have already mentioned it, but can you tell us what is the overall volume growth in traffic for the BOT projects that you have?
- Paresh Mehta:** The traffic growth is in the range of 6% to 9% for this quarter year on year.
- Apurva Kumar:** Okay, 6% to 9%, this is better than what we have seen in the last few quarters, right?
- Paresh Mehta:** True, definitely true.
- Apurva Kumar:** What do you think would be the underlying driver for this?
- Paresh Mehta:** I will tell you two reasons, one is the base being lower and typically the economy is still checking on in the hope of things to move positive.
- Moderator:** Thank you. Next question is from Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Thanks for the opportunity again. Sir on the rate revision on the tariff revision which you mentioned for the NHAI projects where we have 3% plus 40% WPI formula. If WPI is negative then it remains negative in the formula as well right.
- Paresh Mehta:** Right, it is true.
- Moderator:** Thank you. The next question is from Amish Kanani from JM Financials. Please go ahead.

- Amish Kanani:** Hi sir, my observation is that you have built about Rs.14,000 Crores on the total 48,000 Crores of bids for the first four months, my question is do you see the participation creditors I put it as 30%, as the year progresses you might bid for a more number of projects within this or you would typically is your history run rate is 30% in the sense that the state that you select you would be participating only in say 30%, 35% of the total projects of NHAI, or all the award is put together.
- Paresh Mehta:** The criteria for deciding is not 30 or 35, basically it is more on the basis of what suits us and what fits in our ability to execute and make our margins. If I keep what are the projects to be coming in the near future around say Rs.20,000 Crores, value we will be bidding Rs.10,000 Crores, so that means 50%, so that is because the type of project, which had come, which suits us.
- Amish Kanani:** So you see the participation rate could come at least in the next lot it could be higher and then also as what you said the smaller competitors may be bidding....
- Paresh Mehta:** It is marginalized, so that the competition will become lesser aggressive.
- Amish Kanani:** In that context you are still confident that the number that we are targeting we should be able to get that number.
- Moderator:** The next question is from Devam Patel of IL&FS. Please go ahead.
- Devam Patel:** My question was about medium term tolling contracts, auctioning or securitization opportunities. What is the sense of how much opportunity could come up in this space and are we looking to actively participate in that? Second part of the question is do you look at this as a substitute to the EPC, BOT orders that you are targeting or is it something you will fall back upon and evaluate later if the orders do not materialize as per expectations?
- Paresh Mehta:** The OMT contracts typically are a different vertical. So they will not have any impact on the EPC targets, which we have. So we will look at both these opportunities of EPC targets including EPC and BOT and toll collection targets as a separate opportunity and we will pursue both the opportunities, we have been pursuing OMT contracts also in the past. We have small toll collection contracts already in the system today too. So I do not think so it will impact the targets for EPC.
- Devam Patel:** So you will have separate targets for that through the year?
- Paresh Mehta:** Yes, once those opportunities start coming on to the table, we will definitely see those projects and take up projects for toll collection contracts also. We have one project at Kognoli on NH4 in Karnataka, where we are doing a toll collection contract.
- Devam Patel:** Any sense of what the NHAI might be trying to do and come up with this year, you see a big tender pipeline in the OMT coming up?
- Paresh Mehta:** OMT not very, very sure big pipeline this year, may be probably next year, not really much information on that.
- Devam Patel:** And you said it will look at it simultaneously, but given that if there are securitization contracts, it will require capital as well, would your view change in that sense?
- Paresh Mehta:** Securitization contracts, I did not follow which type of policy you are referring to?
- Devam Patel:** OMT contracts which are beyond five years.
- Paresh Mehta:** They are totally different, so based on our strong balance sheet, we definitely look at securitization contracts also where there is an opportunity for toll collection and maintenance and we will not have any constraints on putting in equity, so we will look them at very seriously.
- Devam Patel:** Sir just a small thing to check the traffic growth you mentioned this quarter seems better than what you are indicating in the previous quarter, so across stretches is this pickup sustainable through the year or was this more of a base effect?

- Paresh Mehta:** It will be sustainable because the whole year is to run out, so the whole year has a base effect constraint, only of course may be the last two quarters Q3, Q4 that has been incremental, but I think this will continue.
- Moderator:** Thank you. The next question is from Bharanidhar of Spark Capital. Please go ahead.
- Bharanidhar:** Thank you for taking the question Sir. Sir, my question is on basically the risk for this opportunity that NHAI is talking about, the Rs.72,000 Crores for next three years, they are talking of, much bigger number, so what is basically like in your view a threat for attaining this target, is it land acquisition probably is the biggest threat and in your LOAs, which you are signing is NHAI following that in spirit and in letter that they are having 80% of land available upfront?
- Paresh Mehta:** For FY 2016 the target which you have set is easily achievable because these are the projects which already have land acquisitions as per the NHAI norms, so there will not be any problem in bidding out the target for FY 2016. As far as the experience which we have gathered in the last five, six months when biddings have happened, though we have not ourselves got any project, what we understand is there are bid out projects where the compliances are as was promised.
- Bharanidhar:** So what has actually changed from now and before, so what has enabled them to comply with it better?
- Paresh Mehta:** It is only matter of timing of when you give out a project, if you are too much in a hurry you give out without compliances done by NHAI, which was the case in past, so they were hopeful that they will get the land bill, this time almost two to two-and-a-half years what they have been doing is they have not been giving projects where the land acquisition issues are not sorted out to the extent of 80%, so from that perspective it is more of a process, which was hurriedly done in the previous years, now which has been done in time and actually it is being taken only once the land is in possession and of course the environment and forest issues being is more pragmatic nowadays, these clearances are coming through faster.
- Bharanidhar:** So in your view the remaining about 20,000 odd km to be awarded by NHAI, so it should be smooth.
- Paresh Mehta:** Yes.
- Bharanidhar:** What is like the update on the hybrid annuity model Sir, so in your view how much of those projects would be of interest to you, would you be interested at all in that model?
- Paresh Mehta:** Hybrid model is a very interesting model definitely and with annuity in place and EPC definitely our forte we are very much keen in bidding for these projects. There are 16, 17 projects, which were identified sometime back by NHAI for bidding. I believe this month they should probably I think so they have already one project which may go for hybrid bidding, one project will come up this month itself.
- Bharanidhar:** The parameter there is basically your project cost. There is also a term which is there will be interest payments at the bank rate plus X percent, so is there any clarity on what the X percent is?
- Paresh Mehta:** It could probably be RBI, so RBI has set around 8%, it could be 8 plus 2%.
- Moderator:** Thank you. The next question is from Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Few questions, first sticking to this hybrid itself, so given the preference of NHAI more towards hybrid rather than BOT toll, do we expect the competition to increase as compared to what we are seeing in BOT toll or the same set of players would be keen in hybrid itself?
- Paresh Mehta:** That definitely would be, because the toll risk is now not there in this project, jointly will be EPC based projects, so competition will be slightly more vis-a-vis your toll projects.
- Rakesh Vyas:** But it will not be as aggressive as EPC because certain players do not have the balance sheet to bid for?
- Paresh Mehta:** What would happen is typically those who are only banking on the toll movement over the years would probably not really look at this because there are many players who are looking at the risks on toll performance, but they do not

have the EPC skill, they outsource the EPC skills but they target on the EPC toll up, it will typically go out and it will be only for those people who have good EPC skills and of course equity available for funding the 60% of the project cost.

Rakesh Vyas: Sir my second question relates to specifically Sambalpur, we are given to understand that the mining activity in that area has improved significantly both on coal as well as on iron ore. We are not seeing similar impact on the toll for us on that project. Is this totally independent of how the mining activity is there in the state?

Paresh Mehta: No, no it is independent and we believe that this impact will be visible in three to four months time post November because all these mining activities licenses have been issued, work has started, but the impact to happen on ground would take sometime.

Rakesh Vyas: Lastly, you said that the margins on EBITDA front will go back to the normal level because 14.3% is the margin that we reported on standalone this quarter against the historic rate of around 12.5% or so?

Paresh Mehta: It could be in the range of 13 odd percent, it will not be higher than that.

Rakesh Vyas: And you also highlighted some of the new project on which you are L1 the margins could be lower, is this the current understanding?

Paresh Mehta: It could be in the range of around half a percent lower to that.

Rakesh Vyas: My last question sir, how has been the progress on new projects for power T&D, have we now stopped looking at it on the bidding side?

Paresh Mehta: Bidding side there are projects being bid out and we are bidding for but we are bidding at slightly higher hurdle rate, order book on the power is quite comfortable, so we are bidding at slightly better hurdle rates.

Rakesh Vyas: Which states are currently offering?

Paresh Mehta: Orissa is there, Andhra is there.

Rakesh Vyas: And these are the states we are keen to operate in as well?

Paresh Mehta: Yes, we have been working there, so we do not have much issue.

Moderator: Thank you. Our next question is from Aditya Mongia of Kotak Securities, please go ahead.

Aditya Mongia: Sir, my question relates more to incremental projects and the fact that now the other investing entity SBI Macquarie may not invest, so there is still some confusion at least in my mind that let us say if a 1000 Crores project gets 300 Crores equity and there is nothing which is coming in from SBI Macquarie, then how does the stake get diluted, is there a set procedure laid down or how is it done?

Paresh Mehta: There is a process laid down in our shareholders agreement and we will follow that though we have not come to a stage where the situation has arisen and we have had talks and I do not think it should be a hurdle. They will dilute as and when new projects are added to the portfolio.

Aditya Mongia: How is the valuation then decided at which dilution happens?

Paresh Mehta: There is a process laid down, more of an FMV base but how the FMV is to be done is the process decided and we will arrive at that, it will be based on FMV as at that moment of time.

Aditya Mongia: This exercise will happen every time project gets one independently, so this is the way.

Paresh Mehta: Yes, exactly.

Aditya Mongia: Just to kind of clarify on this Chennai-ORR project wherein similar thing has happened and the way we have accounted for how is this done in this case, is there a dilution which is happening on the Chennai-ORR front?

- Paresh Mehta:** Chennai ORR was done before the total investment was made, so this is part of their original commitment, the newer cash flow funding which is happening for cash shortfall in the projects that we will arrive at a later stage, once you get a new project that time we will iron out all the other smaller issues also then.
- Aditya Mongia:** So my sense was that all the money for this project, the equity part of it was invested by Ashoka Buildcon.
- Paresh Mehta:** So putting the position at par, the valuation will be, the change due to whatever they have not funded, suppose I have put in whatever money I have put in, I will bring it in to the SPV, because they are not funding on a particular date we will arrive at an FMV and readjust the value. It is not yet done because we are still not transferring it, as soon as we receive permission from TNRDC; we will transfer those shares in to the holding company.
- Moderator:** Thank you. Our next question is from Devam Modi of Equirus Securities, please go ahead.
- Devam Modi:** Sir, thanks for taking my question again, sir question on how much EPC capex are we expected to incur this year if we are say growing at 10% or probably 20-25% next year then are we planning to increase and incur an EPC capex this year?
- Paresh Mehta:** No, not really very significant because now what is happening is EPC machinery is getting relieved from most of the projects. The expenditure on captive capital assets for EPC would be small, not very large.
- Moderator:** Next question is from Vibhor Singhal of Phillip Capital, please go ahead.
- Vibhor Singhal:** I just wanted clarity on the cash front; you mentioned that the cash at the end of the quarter was around 134 Crores.
- Paresh Mehta:** Yes.
- Vibhor Singhal:** Sir you also mentioned that the 500 Crores of QIP has been used to reduce the working capital loan and has been invested in some mutual fund and other instruments, so could you just break up the 500 Crores to how much has been used to reduce the working capital debt and how much has been invested?
- Paresh Mehta:** As on date June 30, approximately 100 odd Crores was in mutual fund and balance 200 Crores was utilized for using working capital debt, it could be even reducing rates.
- Vibhor Singhal:** Sir please come again.
- Paresh Mehta:** It is only working capital debt, so that was reduced by approximately 200 Crores and it was used for paying off creditors and making the credit ratio better.
- Vibhor Singhal:** So we have around 100 Crores remaining from the QIP in the form of investment which we can call upon if we acquire for equity investments in BOT projects.
- Moderator:** Next question is from Achint Bhagat of Ambit Capital, please go ahead.
- Achint Bhagat:** Sir just one followup question on the status of the stake acquisition in Jaora Nayagaon, last time when you spoke you had highlighted that 25% stake is to be acquired, so what is the status on that?
- Paresh Mehta:** We are in the process of getting part of the stake transferred to ABL and part we are disbursing to give consent to transfer, otherwise we have already addressed the economic interest which is in our favor. We have already paid off the amounts.
- Achint Bhagat:** So the current stake is 37%, am I right?
- Paresh Mehta:** 37.74 is the stake held by ACL and around 26% by ABL.
- Achint Bhagat:** So the 26% will remain with ABL, it does not get merged with ACL at a later date.
- Paresh Mehta:** No.
- Moderator:** As there are no further questions from the participants I now hand the floor back to Mr. Paresh Mehta for closing comments, over to you Sir.

Paresh Mehta: Thank you very much everybody for joining this con call and we will be glad to take up any questions. My contacts are available on my website and we are available.

Moderator: Thank you very much Sir, ladies and gentlemen on behalf of SBICAP Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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