"Sadbhav Engineering Limited Q3 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sadbhav Engineering Limited Q3 FY2018 Earnings Conference Call hosted by Edelweiss Investment Research. As a reminder, all participant lines will be in the listen-only mode. 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. Debashish Mazumdar from Edelweiss Investment Research. Thank you and over to you Sir!

Debashish Mazumdar: Thank you very much Ali. On behalf of Edelweiss Investment Research, I welcome you all to the Sadbhav Engineering Q3 FY2018 post-earning conference call. On behalf of the management, we have Mr. Nitin R. Patel - Executive Director and Chief Financial Officer. Without wasting further time, I will hand over to Mr. Nitin Patel for their opening remarks then we will open for question and answer. Over to you Sir! Thank you very much.

Nitin R. Patel: Thank you Debashish. Good afternoon all everyone. On behalf of Sadbhav Engineering Limited, I warmly welcome all the participants and thank you very much for taking your valuable time for the earnings call for the quarter-ended and nine months ended, December 31, 2017. I am sure you must have seen the media release provided to the stock exchanges on the date of results. Now I will first start with the financial numbers, then we will discuss the business outlook and bidding opportunity and the pipeline.

The **i**ncome from operations for the quarter has grown by 8.12% to Rs.935 Crores as against Rs.865 Crores last year. EBITDA for the quarter has grown by 12.57% to Rs.106 Crores as against Rs.94 Crores of the last year and the profit after tax for the quarter has grown by 17.93% to Rs.61.8 Crores as against Rs.52.4 Crores of the last year. Now, the growth in execution during Q3 was mainly driven by the transport segment and within transport segment it was led by the hybrid annuity projects.

The transport segment has also grown by 15% on Y-o-Y basis. The EBITDA margin for the quarter stood at 11.29% as against 10.85% in the same period of the previous year. As we have discussed in earlier calls also, EBITDA margin was set to improve because of the value accretive work in the road EPC projects that is bituminous concrete and PQC work of the large number of the EPC projects, which are on the verge of completion and also the better margin levels in the hybrid annuity projects as compared to the EPC project.

The income from operations for nine months of FY2018 has grown by 12.46% to Rs.2572 Crores as against Rs.2287 Crores of the last year. EBITDA for nine months of FY2018 has grown by 18.34% to Rs.291 Crores as against Rs.246 Crores of the last year and profit after tax for nine months of FY2018 has grown by 26.05% to Rs.150.80 Crores as against Rs.119.63 Crores of the last year. Growth in execution during the nine months of FY2018 was driven by the transport segment and within the transport segment it was obvious the EPC and both has contributed, but the transport segment growth in nine months has grown by 30% Y-o-Y.

The EBITDA margin for nine months of FY2018 stood at 11.32% as against 10.76% in the same period of the previous year. Now the debt on December 31, 2017, stood at Rs.1450 Crores down by Rs.327 Crores as compared to March 2017 debt number of 1777 Crores. We expect that debt to reduce further by Rs.150 to Rs.200 Crores from this level due to recovery of money stuck in Mysore-Bellary project. This we have received commercial operation debt in Mysore-Bellary project in the month December 2017.

We expect Rs.110 Crores to be received in this quarter, also Rs.40 Crores are to be expected to receive in Yamunanagar-Panchkula package one and package two towers the variation work, which has already been approved and we are expecting the payment very soon. Now, apart from this we expect that the mobilization advance of 130 Crores from two hybrid annuity projects and Rs.90 Crores from Ahmedabad to Rajkot project shall be received before end of March 2018.

Now, in relation to the guideline for the FY2018, we would like to mention that our revenue stood at around 3700 Crores, which according to us is we are lowering it by at least Rs.100 Crores for the FY2018 and this has happened mainly due to the delay in appointed date in two hybrid annuity projects that is Rampur-Kathgodam package two where the appointed date has been received with the delay of more than 12 months and other projects in Warangal-Mahagaon where we are still not received the appointed date for which the financial closure has already been achieved by the SPV long back actually and apart from this, there was some delay in giving the appointed date of Ahmedabad–Rajkot project, now we have recently received the appointed date for Ahmedabad-Rajkot, so now the execution we will from this project in Q4 onwards actually.

In relation to EBITDA margin, we expect that FY2018 EBITDA margin will be approximately 11.35% further in relation to the order intake guidelines, we maintain that the order intake guideline of 7000 Crores out of which till December 2017, we have already received order approximately 4432 Crores. So we continue to maintain the guideline of 7000 Crores for the full year of FY2018. Now, in relation to FY2019 based on the current execution of six hybrid annuity projects and apart from that another two, which is going to start plus Ahmedabad-Rajkot project will also be there actually for execution for the full year in FY2019.

So, based on the current order book we are of the view that the FY2019, we will expect that the revenue should be around 4300 Crores and EBITDA margin to be approximately 11.50% and considering the very long bidding pipeline from NHAI more than the various state authority for FY2019, we expect that order flow to be around 8000 Crores in the terms of the execution business. So, on the execution front, top five projects by execution during Q3 FY2018 have been disclosed in the media release. As mentioned in earlier calls also we are on the path to complete execution of entire outstanding order book of NHAI EPC projects before end of FY2018.

We have applied for commercial operation date in Eastern Peripheral Expressway project package two and Yamunanagar-Panchkula package two. We have also received commercial operation date this completion certificate in DMRC project EC57, the construction in six hybrid annuity projects where we have already received the appointed date is going very satisfactorily. As discussed in our various earlier concalls, we are focusing to complete the irrigation projects as early as possible. During FY2018, we have received the completion certificate for four projects as mentioned in the media release also.

In mining, Amlohri continue to contribute. This is the northern coalfield project largely towards the execution. We have received almost the 40 Crores of the topline in the Q3 of FY2018. Also in mining segment post December 31, 2017, we have received the communication from BCCL in relation to reduction in mining area of Dhanbad-Kusunda mine, so if it is being accepted and finally close we expect that the order book to the tune of 200 Crores may get reduced in the mining division actually particularly in Dhanbad-Kusunda area mine project. Now, the order book as on December 31, 2017 stands at Rs.9644 Crores excluding one project of Kandla Port worth 167 Crores where LOI is awaited.

However, post the reduction of mining work as mentioned above and after inclusion of above L1 the order book stands at 9611 Crores, which translates to an order book to self ratio of 2.85 times of FY2017 revenue. Now, the NHAI awarding activity has picked from the start of January and hence we are quite confident that we will achieve the full year target of current financial year of 7000 Crores. Now on the bidding activity to start from the road segment, there are three projects in EPC segment from NHAI of length 99 kilometers worth 2670 Crores for which bids have been submitted, but are yet to be opened up.

About future pipeline, there are 56 projects under EPC mode from NHAI of length 2032 kilometers worth Rs.35049 Crores for which the financial bids are to be submitted before March 31, 2018. Sadbhav has been qualified for all 13 packages where RFQ were called by Maharashtra State Road Development Corporation for Mumbai–Nagpur expressway project. The total length of this package is 623 kilometers worth Rs.21870 Crores for which the financial bids are to be submitted on March 28, 2108. In all the total 18 bidders there are 18 bidders have been qualified in these particular projects.

We have already discussed the bidding pipeline for hybrid annuity projects in SIPL Sadbhav Infra conference call, which looks fairly very strong and we also remain very much confident about getting the sizable EPC business out of the HAM bidding. Even as of today there are 89 bids, which are there on the NHAI website for which the bids are to be submitted from tomorrow onwards and the value of all these projects is close to almost 9000 Crores in hybrid annuity. So, in the mining front there are two projects of OB segment worth 265 Crores for which the financial bids are to be submitted before the end of current February and the irrigation there are 13 projects worth 10268 Crores in Madhya Pradesh, Karnataka and Rajasthan state for which the bids are required to be submitted before March 31, 2018. So, this is mainly in the bidding pipeline and the bidding activity.

So, largely this is what I would like to convey. So, with this I conclude my opening remarks. Again I am thankful to all participants for listening the opening remarks. Now, I will request to start the question and answer session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Charanjeet Singh from B&K Securities. Please go ahead.

Charanjeet Singh: Good afternoon. Actually we are guiding for order inflow of around 8000 Crores in the next fiscal year while the pipelines, which you have highlighted is very strong pipeline coming from NHAI and other segments, so what is making us conservative still on the order inflow front, maybe we could be able to achieve much order inflow than this, if can highlight also the breakup of this 8000 Crores what you are factoring from road and what you are factoring from irrigation and other segments?

Nitin R. **Patel**: Ultimately you have rightly mentioned, but the size is so large obviously in hybrid annuity we are seeing the huge opportunity vis-à-vis even in EPC also, NHAI 35000 Crores, MSRDC 21000 Crores to 22000 Crores and various state governments and more all put together, so this is a very significant in past this kind of situation we have also not seen, but the view is that we would like to have a very rationale bidding throughout the coming period of time. Actually at company level, we are very clear that no aggressive is required at the current state. Conservatively, we are much okay at the 8000 Crores is easily achievable and beyond that whatever is there actually that will if it is coming everything at our terms and conditions at appropriate rate, so definitely we will build the further order book in the company, but this is what we can confidently that we will be easily achieve for the next year that is one thing. Second thing in terms of the irrigation and mining, as we have also mentioned in the various calls also that in irrigation we very much clear that the whatever earlier projects we have taken eight in JVs or in other forms and the other areas and even pipeline kind of things more or less we would like to complete all these projects as early as possible and we are on a very verge of the same. Now, largely three projects where we have concentrate further for at least couple of quarters where we will be able to complete the entire work and rest we can go for the final closing of all these projects, but parallely the new bids, which are coming so what we have decided that the business kind of work pipeline whether each and every acre of the land where we have to put the pipeline, we will not go for this kind of biddings, largely it will be a canal network, dams or even the large scale basically heavy large diameter pipeline projects. Apart from that what we are seeing that there will be a good bidding opportunity in terms of the retrieval linking because the number of bids has already been started preparing at the various levels, so once it will be there this will be the opportunity, but this way we are confident that 8000 Crores is conservatively achievable.

Charanjeet Singh: Sir, other question would be on the cash flow improvement we have highlighted that we will getting some further cash flows in the Q4, which can help us lower our debt and what will be the loans and advances provision right now into the SIPL and how much flow we expect from SIPL in Q4?

Nitin R. **Patel**: Ultimately, one thing that the cash flow what I was highlighted this is very clearly now it has been lined up. So most probably we are expecting that largely by end of this we will be able to get what I was highlighted and considering the mobilization has already bid done for their project if even I can say that Mahagaon-Warangal for which we have not yet received the appointed date, but largely we mobilize the entire site now. All the ground activity is completed, so our view is that no much amount will be required to take off all these projects. Whatever the money is coming either from Mysore–Bellary because this project because of the COD, the large amount was stuck, now it is getting released, so this will definitely utilized to reduce the debt, which we have taken for the purpose of these projects only and we are very much okay and in terms of the loans and advances to SIPL, though outstanding amount is almost around 445 Crores as of December 2017.

Charanjeet Singh: Thank you Sir. That is all from my side. I will come back in the question queue.

Moderator: Thank you. We will take the next question from the line of Aditya Kiran from L&T Mutual Fund. Please go ahead.

Aditya Kiran: Good afternoon Sir. Thanks for the opportunity. Just a bookkeeping question from my side; can you share the exact receivable position as on December 31, 2017 and the breakup of outstanding debt in terms of working capital and long-term?

Nitin R. **Patel**: The outstanding receivables all put together including the work-in-progress as well as, which has been certified and payment is yet to be received, so almost it is around 1490 Crores as of December 31, 2017 and in terms of the total breakup of the loans as you have mentioned that total outstanding as I have mentioned 1450 Crores, but largely I am of the view that the around long-term facility will be to the tune of around 480 Crores and the outstanding loans from mutual funds to the tune of around 140

Crores odd and rest is basically short-term to medium term kind of facility depending upon how we have to make the repayment in terms of the facilities obtained.

Aditya Kiran: Great Sir, and in terms of the direction going forward you have mentioned that this is likely to come down by another 100 Crores by March 2018, that would be accurate, right?

Nitin R. **Patel**: Actually, we are of the view that it should come down to around almost 1250 Crores as against the 1450 Crores that is what we are internally and most probably we will be able to achieve this. We do not see any other challenge because the payment, which is lined up we will be able to make it and the rest will come from whatever the SITL will come, the remaining I think this will continue remain.

Aditya Kiran: Sure, thanks very much Sir.

Moderator: Thank you. The next question is from the line of Alok Deora from IIFL. Please go ahead.

Alok Deora: Good afternoon, Sir. Just wanted to know about the competitive intensity, so the projects, which we have bidded, are we seeing any sort of decline in the competition or are there still large number of bidders because of first 10 months, have been really muted?

Nitin R. **Patel**: Obviously initial phase when these kinds of gap are there, the initial phase there will be competition and competitive intensity will be there. What we have seen in the recent bidding that if the bid size is more than 15000 Crores, number of bidders are more as compared to the small projects in hybrid annuity more particularly and EPC, obviously there are around 12 to 14 people are there in each of the bids, so definitely there is a very strong competitive intensity because the window of HAM is not opened for almost all the players who are there in the EPC number one. Second in HAM our view is that there will be around within the range of 8 to 10 companies will be there. Maximum who will be there in the forum for coming six-months and I think these all will get decent number of business as of considering the size and magnitude because every day as of now even after this Bharatmala Pariyojana also every day at least one new bid call is being issued by NHAI alone.

Alok Deora: Sir, one more question was you have mentioned about 1000 Crores sort order inflow in the next year and say we could be executing around 4000 Crores in terms of revenue next year or slightly more than that, so our book, which is already at around 9700 Crores would be reaching to 14000 Crores at the end of next year, so based on the current gross block and manpower, how much sort of order book we can really manage or we need to then look at incurring some significant amount of capex?

Nitin R. **Patel**: Actually, I would like to mention is that this order book, which we have mentioned that will further reduce by current quarter execution number one. Second thing as we have guided that 4300 Crores, which we are very much comfortable based on the current status and third thing the new orders what we have mentioned that the 8000 Crores that will be a mix of EPC, hybrid annuity and put together, so if you see the start of the actual execution from hybrid annuity will take at least five to six-month time once we get the LOI from the client. So that is the average status what we have seen based on our past experience also, so obviously order book top up, we will continue to grow definitely, but in terms of the execution what I would like to mention here that per kilometer cost of the projects has increased very significantly. If I can say that at least one-and-a-half to two years back whatever projects we are executing now so earlier the cost was around Rs.10 Crores to Rs.12 Crores per kilometer, which as of now on an average it is going beyond 20 Crores per kilometer and that is largely because of the introduction of the series of new structure and also the construction that the large number of projects are mainly in the concrete roads, so this is the big change what we have seen. So in terms of the resources what we understand that it will be reasonably the same kind resources can generate the more business at a topline without adding much capex in the overall business of the company.

Alok Deora: That is all from my side. Thank you and all the best, Sir.

Moderator: Thank you. We will take the next question from the line of Nilesh Bhaiya from Macquarie. Please go ahead.

Inder: Nitin Patel, this is Inder from Macquarie. My question is more on this prospect that you have list it down, can you just talk around what you think could be the possible challenges by which this quantum of orders could not get or will not get placed for example, the Mumbai–Nagpur expressway, what is the status of land acquisition, if you look at the HAM projects, what can go wrong from here on in terms of total size of order is getting placed over the next 12 months?

Nitin R. Patel: Mumbai–Nagpur per se what we hear also we are also closely watching that and we are of the view that almost 60% of the land is being acquired now and given the progress from MSRDC per se the government of Maharashtra the payment releasing is very fast and they making the additional incremental payment as compared to what NHAI is paying to the landowner, so that also we have seen that number one. Second thing the bids what NHAI has called, so our experience in the past last, if you see the 20 years experience we have seen all kind of cycles everywhere, but largely we have seen that whatever bids has been called by NHAI that has been awarded and in current context the majority of the business in the hybrid annuity and EPC only, which is relatively much, much basically less riskier project as compared to the tolling what we have seen. So, we do not see much problem even now the lenders comfort is slowly coming on the board except the banks who are there in the PCA, rest all other banks are participating in the hybrid annuity and we have seen that the almost 55 to 60 projects have achieved the financial closure so for high hybrid annuity also.

Inder: So, in your assessment in the very short-term by end of March how many kilometers route projects you still think are in pipeline both for EPC and for HAM by NHAI and MoRTH put together?

Nitin R. **Patel**: NHAI as I have mentioned that as per current website, obviously there will be some slippages and we have seen in the past also, almost 89 projects in the hybrid annuity and more than 35000 Crores of the ECP project, so if NHAI alone, they are 130000 Crores of the bids are there on NHAI list plus at MoRTH also we have seen the last, I have seen that almost around 22000 Crores to 23000 Crores, but MoRTH project is relatively very small size and it is tooling and widening kind of projects, so where our interest will be little bit less as compared to the NHAI projects.

Inder: What is your sense as to these entire 135000 Crores, how much time it will take for NHAI to award it?

Nitin R. **Patel**: Coming six to eight months, they will complete everything.

Nilesh Bhaiya: Thanks a lot, Sir.

Moderator: Thank you. We will take the next question from the line of Anupam Gupta from IIFL. Please go ahead.

Anupam Gupta: Sir, just wanted some clarity, you said you will not require too many incremental resources for the new revenue growth, but exactly what is the capex, which you will do in this as well as the next couple of years?

Nitin R. **Patel**: This year we had incurred the capex to the tune of almost around Rs.60 Crores and largely in the same transportation highway sector business and going forward largely the capex will be on the critical equipments what we have internally decided because now the relative advantage in terms of owning the machinery on the balance sheet vis-à-vis taking the machinery on the lease is now neutralized post GST in the place.

Anupam Gupta: So, what should be the good number you take around 100 Crores or so or less than that?

Nitin R. **Patel**: No, it will be lesser than that, so on an average we can say that 60 Crores each for the next couple of years will be the capex for us.

Anupam Gupta: But, when you actually say that the per kilometer size has gone up because of more structures and more concretization, so concretization obviously we can understand that same equipment can do additional revenues, but if you are more structures would not you require more equipments as well for that?

Nitin R. Patel: Only that is why the concrete batching plant and the concrete places and the centering material these three are the basically things, which formally we do not see any other and the cost itself is not so high for these equipments.

Anupam Gupta: Understand, thanks a lot.

Moderator: Thank you. We will take the next question from the line of Viral Shah from Emkay Global. Please go ahead.

Viral Shah: Just a couple of clarification. Here, the debt reduction plans of around 1450 Crores, so 1250 Crores by March continues, right?

Nitin R. Patel: Yes, we are there on them.

Viral Shah: And secondly in terms of arbitration claim, what will be that amount be and what is the status on that?

Nitin R. Patel: We have received the award for one Rohtak–Panipat, so we have already intimated exchange that the tune of around Rs.104 Crores that is the award we have received. Out of that if we get the reset payment one it flows so out of that almost around 72 Crores belongs to Sadbhav Engineering. Once it will come definitely Sadbhav will payoff to the existing debt, so this will be used, but I am not committing the date whether it will come before March or basically it will take some time also number one and second thing there are another three arbitration proceedings almost to the tune of 650 Crores without the interest thereon is undergoing and we expect the award for all three will be there in FY2019.

Viral Shah: All the three to be awarded by FY2019 right?

Nitin R. Patel: Correct.

Viral Shah: Secondly in terms of order books as a clarification you said two mining projects of 255 Crores, right?

Nitin R. Patel: One project that is at Kusunda area in Dhanbad.

Viral Shah: That is the reduction of mining contract, right?

Nitin R. Patel: Yes, correct. The order book we have received, yes there are two projects we have mentioned in the media release.

Viral Shah: No, that is fine. That is a order back, I am talking about the bid pipeline, we had bidded for two projects, right?

Nitin R. Patel: Two projects, correct. It is relatively smaller size only.

Viral Shah: Fine Sir, do not you feel the outlook for FY2019 is something, which is very subdued because given the order book and the kind of execution, which we are seeing that outlook can be revised apart for FY2019 and FY2020?

Nitin R. Patel: Frankly speaking, we would be very much clear that whatever the current order is there that is to be executed satisfactorily well within the time and the new orders, which will come because it will be a mix of HAM and EPC, so tomorrow if the larger portion is coming from the EPC so definitely it will go for further uptick basically, HAM also even considering if everything is coming from the HAM also even though we will be able to achieve these number so that is what conservatively we are very much okay, definitely it will go accordingly our internal assessment, but this is what we can comfortably tell. Overall view is that the rather than on the topline, yes it is required depending upon what is the execution commitment to the clients, but the more focus will be there on the balance sheet also for the coming period of time, so that is what how we would like to take it forward.

Viral Shah: Sir, finally loans from SPIL still stands at 442 Crores, right?

Nitin R. Patel: Yes, it is 445 Crores as of December 31, 2017.

Viral Shah: Thank you so much, Sir and all the best.

Moderator: Thank you. We will take the next question from the line of Bharanidhar Vijay Kumar from Spark Capital. Please go ahead.

B. Vijay Kumar: Good evening. So when is the appointed date for Rampur-Kathgodam package two and Warangal expected?

Nitin R. Patel: Rampur–Kathgodam package two we have received on December 31, 2017. Now, we have the package two. We have already received the appointed date for the same now and Warangal-Mahagaon that is pending so we expect that depending on our current status mostly in the first week of March we will be able to take the appointed date for the same.

B. Vijay Kumar: One book keeping question, so of the HAM revenues book in the quarter has given as 186 Crores, can you give project wise bid?

Nitin R. **Patel**: Sure, I will tell it is not upfront ready with me, but I will just explain, once it gets through I will come back, no problem.

B. Vijay Kumar: Sure, Sir. That is it from my side.

Moderator: Thank you. We will take the next question from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Good evening Sir. Thanks for taking my question. Just a couple of question, one is I have just missed out on the guidance part so FY2019 you are looking a view of around 4300 Crores, right?

Nitin R. **Patel**: Yes, in construction business, correct.

Vibhor Singhal: This year FY2018, 3800 Crores?

Nitin R. **Patel**: 3700 Crores what we have.

Vibhor Singhal: Sir, second question is majorly is on the projects that you mentioned on the interlinking of river project, so did you mention that you probably seen some activity in that would you just talk a bit about it as to where exactly are we or are we seeing changes for linking in MP or maybe the couple links in Maharashtra and what kind of timeline do you think do you see the smallest order come through?

Nitin R. **Patel**: Currently what we are seeing the active preparation of the bid is between Madhya Pradesh, Maharashtra and Gujarat, so there we are expecting the first bid will come from there only and obviously the size also we are seeing the size will be also very decent size, so what we understand and this will be largely a fill engine, so more kind of canal kind of working or some large scale pipeline kind of working will be there. That will be the scenario. It will not providing the water to the last mile agriculture watering.

Vibhor Singhal: Did I understand that the capex for phase I is around 12000 Crores and the Maharashtra runs around 13000 Crores and 3000 Crores do you think that broken up into small packages or do you think they could potentially be bid out into multiple small packages or may be three or four large packages in terms of what the bids that have been prepared?

Nitin R. **Patel**: Largely we are seeing that it will not be very small size projects definitely, but depending upon the as of now once the bids are through, let the bids to come then we will be able to comment more on the same.

Vibhor Singhal: Thank you so much, Sir. Most of my questions have been answered and wish you all the best.

Moderator: Thank you. We will take the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir thank you for the opportunity. Sir, wanted to focus on the debt situation going forward just FY2018, but let see you are able to win 8000 Crores orders next years and those were executed in FY2019–FY2020, do you envisage debt levels reducing year after year over the next three years and such a scenario especially given the way the capex flows will happen for the company?

Nitin R. Patel: We had a very clear now the line of working so far the debt is concerned for both the companies. The thinking at every level in both the companies is very clear that between SCL and SIPL we would like to zero down as earlier as possible and we are on a very much well on the track number one. Second thing on the construction business, because now the SIPL is able to manage his own stuff without any support from Sadbhav Engineering, so that has been now clearly demonstrated, so going forward that will not be required either any kind of HAM project is coming, so SIPL will manage its own stuff. Third thing Sadbhav Engineering level ideally we are very much comfortable say debt equity basically we can see the leveraging should not be more than 0.5 at Sadbhav Engineering standalone level that is what is clear in our mind and we will continue to observe this based on that all the business difficult and everything we will continue for coming period of time.

Aditya Mongia: Sure Sir that clarifies. Second thing is when you are talking about capex of about 60 Crores obviously this is much less than the run rate has been over the last few years, should we then assuming slight bit lower margins on P&L side because of the easing cost and if so how much?

Nitin R. Patel: See ultimately as I have mentioned that what is happening, if you see in the current contest large number of people on the ground now they are owning the excavator and tippers and this kind of equipment, which that become now kind of a commodity kind of situation what we understand, so what our focus is that we will continue to have a critical equipments, key equipments on our balance sheet, all kind of operators and all kind of staff maintenance and basically this will be there on the role of the company and we will continue to increase them or we will continue to maintain them based on how the business we are taking, so that is clear focus and even what we have seen during the last two to three years, even currently also large number of projects that we are getting the work done, the kind of excavation or earthwork kind of situation, so everything we are fixing on the cubic meter basis not on basically everything at our own or hourly basis we do not hire the equipments on the balance sheet, so that is way how we have set it right now.

Aditya Mongia: So essentially should we assume that EBITDA margin number of 11.5% would remain as such even though you would be outsourcing or you would be using leased out?

Nitin R. **Patel**: Really achievable, we do not see any other challenge there actually. We will be able to maintain it, no problem.

Aditya Mongia: Sure, Sir. Last question on my side, now considering the number that you are suggesting, which is about 8000 Crores of order inflows next year and possibly of 4300 Crores revenue line, you would be ending the year FY2019 possibly at about 13000 Crores to 14000 Crores of backlog if not more that kind of suggests to us that FY2020 could be a very good year in terms of vis-à-vis growth in revenues?

Nitin R. **Patel**: Let us go one year back, if you see from the April 2017 onwards till November, literally there were no bid or very less bids, so if there could have been the bids based on the dates how it has been mentioned, so even today also our order book could have been jumped to the numbers what we have seen that. Now, the magnitude becomes so high and the period if you see because everything will close according to us before October, November or December this year and this is not the only list because at every now a days, the new projects are getting added in this list, so as I have mentioned that just during last six days new seven HAM projects has been added into the list, so that is the exits scenario, so definitely this will take forward and this is not for Sadbhav, even what we are of the view every road construction companies order book will mount for coming at least six to eight month everybody will mount there.

Aditya Mongia: Sir, just to complete my question, what I was setting about in FY2019 as you are saying would be close to 20% growth, can you still growth 30% FY2020 in terms of the resources that is an issue or no?

Nitin R. **Patel**: Yes, definitely. You see once the commitment obviously whatever will be there and as we have mentioned the 8000 Crores, so definitely we have to execute between FY2020 and FY2021, so it will definitely reflect between those two numbers.

Aditya Mongia: Got it Sir. I will get back into the queue for more questions. Thank you.

Moderator: Thank you. The next question is from the line of Rita K. from SBI CAPS Securities. Please go ahead.

Rita K.: Sir, basically two questions. The first question is pertaining to the GST impact on the revenue and second is how much is the tax rate do we envisage for FY2018 and FY2019?

Nitin R. **Patel**: Let me answer the first one. The GST per se now lot of things has been cleared at our almost all the level and what we have seen that the current rate of 12% of GST, so all our business is inclusive of the GST, actually all our order book and against that we have worked out it on an average we will be able to get the import credit to the tune of around 8.5% to 9%, almost between 8% and 9% we can that is depending upon the exact quantum of work for each of the projects, but this is the average and the rest will be the tax outgo, so as compared to the earlier ones, earlier in various state government under the VAT as well as, so we were going into the composition scheme and the rate of composition was ranging between 4% and 5% in the various states, so we are of the view that more or less we are at a tax neutral rather there will be some saving of at least 50 to 75 basis point for coming period of time, but not much than that.

Rita K.: Sir, the revenue which we have given right now, is it including the GST or x the GST?

Nitin R. **Patel**: This is including all because our sales rate basically the turnover, our agreement with the client is inclusive of all the taxes, so that is we are booking everything inclusive.

Rita K.: How much is the tax rate are we looking at for FY2019?

Nitin R. **Patel**: Obviously so long yes, we are executing the projects, which we have started before March 31, 2017, so net FY2019 at least two to three quarters we will continue to get 80IA assumption, so that we will be able to get MAT credit and then after we have to start paying into the full tax regime. We can say that in FY2020 we will come to more or less have full tax rates.

Rita K.: Sir, in FY2019 can we assume like 20% tax rate may be, will it be safe again that with?

Nitin R. **Patel**: Full year it will not be that much, I think it may be between, say according to between 10% to 12% maximum it may go up for the full year.

Rita K.: That is it from my side and good luck for your future.

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

Devam Modi: Sir, basically firstly if you can just got the details related to to finance cost it is a breakup into interest cost one time season with the commission?

Nitin R. **Patel**: In this particular quarter now considering the huge bids in pipeline we have obtained a special sanction of almost 250 Crores of the onetime bank guarantee facilities from the couple of banks and for that we have paid the fees as well as some commission upfront so definitely that component is the additional because large number of bits are there in a pipeline, so that is one part actually and secondly the interest as compared to the Q2 because largely we utilized the full EBITDA of the commercial paper facilities in Q2, we have not utilized in Q3, so that is some differential cost has come because of that, that is the main reason, otherwise the rest is everything is within the numbers only.

Devam Modi: Sir, what was approximately roughly the onetime fees and the BG commission that will be during this quarter?

Nitin R. **Patel**: BG commission is almost to the tune of around and fees all put together around Rs.2 Crores and because of the interest differential it is around 1.6 Crores is the interest difference what is the additional we have seen because of non-utilization of the commercial paper.

Devam Modi: And onetime fee for setting of the BG facility of 250 Crores?

Nitin R. **Patel**: As I have mentioned around Rs.3 Crores.

Devam Modi: Sir, you mentioned in various mentioned in the past couple of questions you can just give us a total idea of whatever claims or variations across the whole EPC board in the next one to one-and-a-half year?

Nitin R. **Patel**: The variation work we have, which we have been approved and executed so far in across all the ongoing projects is to the tune of around Rs.300 Crores to Rs.310 Crores as of now. The work which has already been executed so as and when we will continue to get the payment, it will definitely reduce our debtors number actually so that is one part and that has been approved variation what I mean to say. Regarding claims nothing has been booked for the award for which the Rohtak–Panipat is already there so that will be the additional one, so as per our books is us around Rs.62 Crores and one more claim of around every small amount of around Rs.18 Crores to Rs.20 Crores are pertaining to the Amber-Rourkela for which we already received the Supreme Court judgment. The government of Odisha has to release that payment, so once it will be there it will be settled down, so that is on work and rest other things we can say that the some of the payment what we have blocked for the irrigation work pertaining to the GKC, which is almost outstanding is around Rs.58 Crores to Rs.60 Crores as of now and as I have mentioned in the Mysore–Bellary, in lieu for funding has been made by Sadbhav Engineering and also the variation payment, which is almost around Rs.56 Crores, which has been made by Sadbhav Engineering. So, these are the large numbers. Rest will be on the project two project is different.

Devam Modi: Finally Sir, given that all this work level, a huge work coming for whole industry, what is your view on labour cost and how are you looking to manage that over the coming one to two years?

Nitin R. **Patel**: Obviously labour cost will go up, but what we intent that we are linked to the inflation sector also in the country, so whatever the component of the labour will be added to some extent largely it will be mitigated under the price escalation formula with us, but definitely we are taking some additional comfort in each and every bids now including all EPC as well as the hybrid, so we envisage that incrementally 10% to 15% cost will go up between FY2019–FY2020 as far as labour cost is concerned.

Devam Modi: So you are basically saying that 10% to 15% wage inflation in this period?

Nitin R. **Patel**: The absolute numbers, inflation may be depending upon the overall scenario, but to the labour cost what we have paying on the ground that will increase to some extent.

Devam Modi: Sure, that is it from my side.

Moderator: Thank you. We will take the next question from the line of Mayank Goyal from B&K Securities. Please go ahead.

Mayank Goyal: Good evening Sir. My question relating to the metro segment, as far as we had placed a bid for the Mumbai metro line for four packages for Rs.2000 Crores and as far as I know the bids are out and we are not even L1, so just wanted to understand how is the competition intensity in this sector and how we are looking for this metro sector going forward given you have received the completion certificate from DMRC so this will also give us some more qualification in terms of bidding in metro projects?

Nitin R. **Patel**: Obviously the competitive intensity so high actually, you can see that the earlier one when the metro based called by the MMRDA so it was ranging from 20% to 22% above and the estimate now it has gone to almost between 0% and 4% below than the MMRDA estimated cost, so that is the range, but according to us obviously there is a stiff competition in this Mumbai metro bids and our view is very clear that we will continue to bid well within our own parameters, so rather than going for much aggressive and later on it will definitely be often to the numbers, we will be not in that league actually.

Mayank Goyal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Parkishit Kandpal from HDFC Securities. Please go ahead.

Parkishit Kandpal: Congrats on good set of numbers. Sir, I just wanted to ask you that the metro projects that we have bid so we have bid JV, so is there any restriction, how much would be our qualification on metro project on standalone basis and what will be the need for going into JV?

Nitin R. **Patel**: Out of the five, six bids what we have submitted; we were getting qualification at our standalone on the three. In three of the projects we were not basically the DMRC was not enough to get through, so once we have found for a JV for the three, so definitely we have to offer for another three also in the joint venture, so otherwise it will be a commercial decision actually so that is the reason.

Parkishit Kandpal: But independently, how much will be the side we can bid?

Nitin R. **Patel**: Independently we can bid up to obviously around 400 Crores or 450 Crores of the single project as of now.

Parkishit Kandpal: So, we will try to augment this to JVs?

Nitin R. **Patel**: Obviously, yes we have to augment it for a coming period of time if the size is larger.

Parkishit Kandpal: Second question was regard to HAM, how is the competitive intensity now and going forward do you thing the fatigue is coming in the system because the huge equity requirement across developers, so will the developers not bid more rationally, I mean we have seen your bids have been like in the mid kind of L1 to L10 or something in that range, so how do you see this?

Nitin R. **Patel**: Obviously in HAM everybody has to limit their own requirements basically depending upon what kind of net equity they will be able to infuse in the projects that is the reason why the number of bidders are less and we understand that we will also evaluate because considering this it is better time to take an appropriate margins on the same rather than going further more aggressive in this kind of scenario currently.

Parkishit Kandpal: But there could be like further reduction in number of bidders because there are seven to eight right now, so do you think like this is a huge pipeline we spoke about it almost?

Nitin R. **Patel**: Only small players will definitely go out once they will get two or three bids, larger players obviously they may continue to take the bid, but depend if everything is exhausted within six months if the book will be full, then their appetite will be I think more or less it will be over.

Parkishit Kandpal: For the six months we will bid rationally and probably you will wait like something if you can get after six months?

Nitin R. Patel: No, not like that, bids will continue to come because it you see the size of this particularly Bharatmala about 35000 Crores to be over the period of four to five years, so this kind of bid will continue now.

Parkishit Kandpal: River interlinking we can do independently there we do not require any JV?

Nitin R. Patel: Yes, we had a larger qualification, see one is highways also as I have mentioned that all this MRDC 13 projects we are independently qualified, so in highways even in irrigation we had a sizable qualification on our hand.

Parkishit Kandpal: Right now what is the scenario regarding to MDO?

Nitin R. Patel: Not much basically keen because the competitive intense we have seen the couple of bids we are not in the range what actually we want actually, so that is the main reason, so long-term commitment whatever is there it should be well within our requirement only now.

Parkishit Kandpal: That is all from my side. Thank you.

Moderator: Thank you. We will take the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir, just a clarification, as of the case of BOT projects if there is a limit on the number of HAM projects which you can bid for which financial closure has not happened?

Nitin R. Patel: No, as of now there is no such condition in the concession agreement, RFP.

Aditya Mongia: So you can have five to six projects also for which financial closure has not happened?

Nitin R. Patel: Yes, it can be.

Aditya Mongia: Otherwise getting 90 projects were looking very, very tepid?

Nitin R. Patel: One has to sit everybody has to sit on the gate of the banks now.

Aditya Mongia: Sir, that was the only question from my side. Thank you.

Moderator: Thank you. We will take the next question from the line of Debashish Mazumdar from Edelweiss. Please go ahead.

Debashish Mazumdar: Two questions related to revenue and margin only, you were giving a guidance of 3700 for FY2018, but to achieve this number you just need a 12% growth 1150 Crores kind of run rate in Q4, so do not you think this number is too much of conservative side that is for FY2018 and the same question I will repeat for FY2019, considering the 6600 Crores in the transport segment order book in your own HAM only 5500 Crores, so again some 20% goes for FY2019 do not you think they are very conservative that is one and second is you are guiding for 11.5% EBITDA margin in FY2018 and if I see your high EBITDA margin were somewhere 13% to 13.5% do you think that, that number would achievable in FY2019 or FY2020 considering the higher number of HAM contribution in your order book?

Nitin R. Patel: See, first of all this 3700 what we have mentioned that is based on that now we are on just last quarter and obviously as I have mentioned that the appointed date for this Rampur-Kathgodam package two happened only on December 31, 2017, so only we will get, because appointed date is delayed by authorities by more than 12 months, so whole year topline we have missed that, that will definitely come in the coming year FY2019. Apart from that, the Ahmedabad-Rajkot because of the election in Gujarat and we have won the project before election, but they all shifted the date, now it is there so with the execution and everything has been started in the project, but whole of the quarter we will not the topline from this so that is why we are very much clear that we will be able to achieve this one number one and second 4300 what we would like to say that the bidding what we would like to make now and even HAM what we have taken the projects we had take the reasonably comfortable numbers as compared to the EPC margins definitely, second thing going forward considering the size and so much of the magnitude our view is very much clear that we will get a good sizeable business at a decent margins also, so definitely the possibility of margin may grow more up depending upon which kind of projects is in our kitty but what we have mentioned that 11.5% is what we can definitely say yes, it is there, so nothing has gone from there number one and the second thing for the 4300 topline so that is also based in the current order book what we are generally trying to say, so not much we are depending on the new business as of now, if couple of projects we can guide and start early so it may go up also further, so that is what how we would like to contemplate.

Debashish Mazumdar: Thank you very much for answering my question.

Moderator: Thank you. We will take the next question from the line of Parkishit Kandpal from HDFC Securities. Please go ahead.

Parkishit Kandpal: What is the update on the KSHIP project, Sir?

Nitin R. Patel: In KSHIP projects the bids has been opened. Now, the criteria is that because in two projects KNR was L1 and there are three packages, third one we have not submitted and both the two we are L2, as per the criteria of ADB and KSHIP I think KNR will be able to get only one, so the tender conditions stipulate that only one will go to them, the second will go to the next second lowest bidder as per the ADB, so what we understand that the Karnataka State Authority has already sort the approval from Asian Development Bank, once they get it they will be able to declare that, once it is there then we will be able to tell that yes, this project is in our kitty.

Parkishit Kandpal: Lastly, what was the order inflow during this quarter?

Nitin R. **Patel**: We have already mentioned that the total orders in Q3 we have added 2549 Crores.

Parkishit Kandpal: What will be the cash in book side, Sir?

Nitin R. **Patel**: Upfront it is not readily balance sheet numbers, but I can say on an average because ultimately it is as it is, but normally we can say that around Rs.50 Crores to Rs.60 Crores might be there on a regular requirement not more than that.

Parkishit Kandpal: And networth will be, I you remember the same?

Nitin R. **Patel**: Networth it has already been stated, but your end we can say that we will be above some 1900 Crores.

Parkishit Kandpal: Year end by March 2018?

Nitin R. **Patel**: March 1, 2018 end, yes.

Parkishit Kandpal: Thank you.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Nitin Patel for his closing comments.

Nitin R. Patel: Thank you very much to all the participants for taking their valuable time and understanding the business of overall of the company. As I have mentioned in my various last conference calls also that the focus to the company is very much clear that yes, let us have a qualitative business and largely basically where we had very strong hold as I have mentioned in my opening remark today that the year-on-year the transportation business has grown more than 30% and even quarterly also the transportation business has grown more than 15% actually, so our view is very much clear that this sector considering the large number of business opportunity will give a definitive growth for the coming period of time and the more focus will be on the balance sheet as I have mentioned rather than straightaway only looking the topline growth so that is what we are actually. Thank you very much and thank you very much to Edelweiss for organizing this call. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Investment Research that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.