



“Sadbhav Engineering Limited Q1 FY2018
Earnings Conference Call”

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MANAGEMENT: MR. NITIN PATEL – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER - SADBHAV ENGINEERING LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Sadbhav Engineering Limited Q1 FY2018 earnings conference call hosted by Inga Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitin Patel, ED & CFO of Sadbhav Engineering Limited. Thank you and over to you Sir!

Nitin Patel: Good evening everyone. On behalf of Sadbhav Engineering Limited I warmly welcome all the participants and thank you very much for taking your valuable time for earnings call for the quarter ended June 30, 2017. I am sure you must have seen the media release provided to the stock exchanges on the date of results.

Now I will start first with the financial numbers then we will discuss the business outlook and bidding pipeline. The income from operations for the quarter has grown by 17% to Rs.944 Crores as against Rs.807 Crores last year. EBITDA for the quarter has grown by 23% to Rs.107 Crores as against Rs.87 Crores last year and profit after tax for the quarter has grown by 14% to Rs.55.5 Crores as against Rs.48.7 Crores last year. So growth basically in execution was mainly driven by the transportation segment though the EBITDA margin for the quarter stood at 11.3% as against 10.76% in the same period of the previous year.

As we have discussed in our earlier calls also EBITDA margin was set to improve because of value generating work in road EPC projects that is a top layer work on the various EPC projects and as well as the better margin levels in hybrid annuity project for which three projects have already started contributing the revenue for the quarter.

Now the debt as on quarter end stood at Rs.1450 Crores on a standalone basis. This is inline with our discuss during the last concall, the debt has reduced basically due to the recovery of a stuck debtors in the road EPC projects and the irrigation projects and also the receipt of mobilization advance in two hybrid annuity projects. We further expect that debt to reduce basically again from this level and due to the recovery of the money stuck change in scope of work of five projects amounting to Rs.250 Crores receipt of balance mobilization advance of Rs.355 Crores from five hybrid annuity projects, also the ageing of working capital requirement is going to happen because of the EPC projects are nearing to completion on a quarter-to-quarter in this year and also the five irrigation projects in the three DMRC metro projects are also nearing to completion. So these all where the working capital has stuck these all will start throwing back the working capital is invested in fusing these projects. So this will obviously reduce the level of the debt this level.

Now in relation to the guidance for FY2018, we stick to the numbers provided in our last conference call for order intake revenue and EBITDA margin also. So now on the execution front, the top five projects by execution during Q1 of FY2018 have been disclosed in the media release as mentioned in earlier calls also we expect the entire outstanding order book of road EPC to be executed in FY2018 itself. The construction in three hybrid annuity projects where we have received the appointed date is going satisfactorily. Construction in one hybrid project is expected to start before the end of Q2 and the balance three-hybrid annuity projects will start execution before the end of Q3. So the irrigation execution was a bit lower than the last year because whereas orders are on the verge of completion. We believe the current order book of irrigation will exhaust by end of FY2019. In mining we have already issued the foreclosure noticed to Bharat Coking Coal for Katras area in relation to overburden and removal of the coal worth outstanding order book of Rs.175 Crores due to the excessive burning of exports coal and issuance of return instruction of DGMS that is Directorate General of Mines Safety to replace the tyre mounted equipments with chain mounted equipments.

Apart from that the execution in Basanti Mata and Katras in Kusunda area of overburden and core removal, these two again for the Bharat Coking Coal where the work amounting to Rs.532 Crores is outstanding. The same work will be expedited further as of now we are going on a slow pace as we have discussed during the last various quarters. Now we are expecting that the service tax issue is likely to be resolved within one, one-and-a-half month from now actually. Because BCCL they have internally given the approval and now they are awaiting the final clearance from their paneled consultants. So when they will give the clearance, we will get the money back actually.

The order book as on June 30, 2017 stands at Rs.8377 Crores, which translates to 2.52 times of FY2017 revenue. On the bidding activity, we will start with the road segment first. There are nine projects of lane 754 km worth Rs.6518 Crores for which the bids have been submitted to various government authorities that are yet to be opened up. About the ongoing pipelines there are 15 projects under EPC mode from NHAI, which is length of 453 km worth Rs.12939 Crores for which the financial bids are to be submitted before September 30, 2017 which includes Vadodara to Kim Expressway Project of lane 124 km as now called under the EPC mode amounting to Rs.6668 Crores.

We are sure that NHAI more than various state governments will come up with the many new roads bids under the EPC segment for coming period of time because NHAI is also slowly focusing more and more on the EPC now we have already discussed the bidding pipeline for HAM projects in SIPL conference call, which looks fairly strong and we also remain confident about getting sizeable EPC business out of the HAM bidding. The sector again obviously observed that the bidding activity has slow down a bit in the first quarter in order to avoid GST complications by various government agencies.

Now on the mining front, there are three projects in overburden segment worth Rs.1653 Crores for which the financial bids are to be submitted before the end of current month. Now on an irrigation front, there are five projects worth Rs.4058 Crores in Madhya Pradesh, Gujarat and Rajasthan state for which bids are required to be submitted before September 30, 2017 for this year.

Now in addition to above, the company is also evaluating the opportunity to submit the various bids in metro segment as company has now successfully implemented and completed the job of Delhi metro project entirely which its own resources. So this is broadly in terms of the bidding pipeline and anything, so I think this is what I would like to convey for the today's call and with this I will conclude my opening remarks and I will request to floor to have a question and answers. So thank you very much for listening to me for the opening remarks.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Anup Agarwal from Cogencis. Please go ahead.

Anup Agarwal: Thank you very much for taking my question. If I understand correctly NHAI is going to open bids for 11 projects in their HAM for about 808 km for about 14672 Crores what you expect on this call, how much is Sadbhav Engineering going to bid for out of these road projects under HAM and under EPC?

Nitin Patel: HAM bid is being submitted by Sadbhav Infra; so Sadbhav Engineering is not putting the bid for HAM projects obviously the EPC for all these HAM is being conducted by Sadbhav Engineering. So naturally before the bid, the EPC price for the bidding is being given by Sadbhav Engineering to Sadbhav Infra and based on that the bid is being submitted. Other than this, EPC as I have mentioned the 15 projects from NHAI alone with length of 453 km amounting to Rs.12939 Crores yet to be bid before end of September. And apart from that the nine projects worth 754 km for Rs.6518 Crores had already been submitted the bids. So this is so far as all are the EPC.

Anup Agarwal: What is going to be order book may be end of quarter, what is your estimate Sir?

Nitin Patel: Even my last conference call, we have indicated that this year we are confident to add at least minimum Rs.7000 Crores worth of the orders from the transportation segment alone. So we are quite okay. As I have mentioned the first quarter obviously there was not much bid because of the GST issues almost various state governments and including NHAI, so hardly there were three bids actually in the entire quarter. Now the intensity has increased and even recently NHAI has also come out for whole years plan and they have mentioned that almost around 6500 km odd almost amounting more than Rs.7000 Crores of the projects to be bid by NHAI itself in the current year.

Anup Agarwal: Thank you very much.

Moderator: Thank you. We take the next question from the line of Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Good evening Sir. The first question was related to the mining segment. You said there is only one notice we have sent for the termination of an order worth Rs.Rs.170 Crores. Is that right?

Nitin Patel: Yes.

Nitin Arora: Rest as you said the service tax issue is resolved, so going forward what we have reported here quarterly run rate of Rs.80 Crores in the mining segment. How do you see that going forward, is this something be now get resolved and it will start inching higher, just wanted to get a sense on that on the mining and the second part is there was some back to back orders given in the mining segment to our subcontractors which defaulted on their execution. Is that coming back on track that is my first question?

Nitin Patel: We have mentioned that the Katras areas Rs.175 Crores, the foreclosure notice have been issued because the DGMS has clearly intimated that the balance work can be completed only with the chain mounted equipments for which we have not original deployed where the entire tyre mounted equipments was there this is one part and regarding that Rs.530 Crores of the job, it is mainly because of the service tax issues. Now this is internally they have given the clearance and they are awaiting the final conference on their consultants actually. We expect that before end of this month, they will get clearance and they have agreed to resolve the entire issue of the service tax and because now post this GST everything is separate working is there, it is completely under back-to-back and what we can see the input credit mechanism has been clearly defined. So we do not have any other issue. So with this, we expect that again the run rate of at least around Rs.40 Crores to Rs.45 Crores to Rs.50 Crores per quarter will come from the BCCL area alone because almost sizeable equipment has already been deployed on this BCCL area and pertaining to the subcontractor issue is completely sorted out already the entire control has been taken over by Sadbhav Engineering. Now the entire work is being executed by the company itself and which is own manpower. So this way it has been sorted out now.

Nitin Arora: Just continuing on that what I understood the order, which you mentioned Rs.170 Crores was getting a notice termination because of the change in the equipment part. Now what happens because you have done the capex now the project is getting handed over back. So is there certain compensation we will be claiming against that because my equipment in the gross block looks to be idle I am not saying it will remain idle, but whatever the time it will remain, it is a loss for us and number two, now the change of math here is that when we own the orders which were given as subcontracting earlier, how does the working capital in mining look for it. Is this is going to be increasing now for the certain

proportion because a President case was setup by the irrigation segment which is generally low working capital, but your partner got bankrupt and they start bloated the working capital, just wanted to get a sense on that?

Nitin Patel:

Generally in mining segment, the payment from the client side is generally being released on a regular basis. The only issue was we have clarified even last various calls that mainly because of the service tax issues, which they have stuck the money. So that is one part for which the payment has held up, rest there is no other issue of the working capital and obviously as we have mentioned that the subcontractor issue is completely now out of these because 100% control is being taken care by us and water portion, the work gets stopped in the Katras area because of the burning nature of the coal because DGMS has given the instruction that this can be conducted with the chain mounted equipments only. So once we get the project get foreclosed then definitely the relevant compensation will be asked from the client as per terms of the contract.

Nitin Arora:

My second question was with respect to the bids, so correct me if I am wrong when we were lot of players are bidding including as per the Ahmedabad to Rajkot project where the deadline in the financial bid is just getting extended while earlier it was envisaged about June 12. What is your sense on the working capital? If you look at the tender it says that the payment terms are 90 days and plus you add up another 45 days for the certification. It looks like working capital on this project itself, which is a big project of five packages Rs.500 Crores each, is about 135 days. So do you think the state is going to change a little bit on this or you think that they will get bid out in these terms and we would be comfortable in working in these terms?

Nitin Patel:

First of all this is a tender condition itself actually. The 90 days payment mechanism is being even though every bidder has to take into the account while putting the bids, number one. Similar is the case if we have seen in the EPC projects because when we have bid this eastern peripheral projects as well as the Yamunanagar-Panchkula and Ambala-Kaithal because everywhere the payment mechanism is linked to the 10% of the length completion stretch on a particular layer. So that has already been taken into the account and that we have already seen that. Now again that payment is now getting back initially we have infused the payment, but the cost has already been loaded into the working itself and considering that if you see the size of these projects because five bids are there obviously and there are the 10 bidders. So first we have to see that who is getting the bid and how much projects are coming to us also depending upon who is L1, but considering all these what we have mentioned that even today also we are reiterating that whatever the working capital level even the debt level as we have mentioned that last March quarter it was little above Rs.1650 Crores, now on June 30, 2017 it has gone to Rs.1450 Crores, so almost more than Rs.200 Crores has been paid off. That is mainly because of the improvement in the working capital cycle, Rs.155 Crores of the debtor has already been reduced because we have started getting the payment in irrigation and

other projects also and going forward all these EPC projects as I have mentioned the variations were Rs.250 Crores everything is going to flow in this year itself, even after adjustment of debt basically we are very much confident that on a yearly basis, year-on-year comparison Rs.450 Crores of the debt and Rs.400 Crores of the debtor will come down on a entire working of the Sadbhav Engineering what we have mentioned in last quarter also.

Nitin Arora: Sir last question from my side can you give the breakup of all the three HAM projects that was the revenue booked?

Nitin Patel: Bhavnagar Talaja it is Rs.60.51 Crores then Rampur Kathgodam package one that is around Rs.50.08 Crores and the Una-Kodinar is on Rs.37.72 Crores.

Nitin Arora: Thank you Nitin Bhai. I will come back in the queue for more questions.

Moderator: Thank you. Next question is from the line of Anish Hariprasad from Antique Stock Broking. Please go ahead.

Anish Hariprasad: Good evening Nitin Bhai. My first question on the margin front, so after long time we have delivered 11% plus margin, now given that HAM constitute 55% of order book and as you said mining is going to now ramp up from here on, so can we see improvement in margin and can we see 11.5%, 12% or kind of margin?

Nitin Patel: Currently the margin level, which has gone up, the first, the reason itself is that the irrigation projects were the margin has gone down because of the reasons what we have discussed in various calls, so that are now nearing to completion. Again the issue of mining has got resolved now actually because everything has been taken over by Sadbhav itself, so this is second and third thing obviously whatever execution in this EPC contract, which are the high value item mainly the DLC and PQC kind of work is under execution, so this is also where the margin level is little bit high and obviously the HAM project is going to generate a higher margin, so that is why even last call also I have clearly mentioned that from this level FY2018 we are going to see reasonably good margins as compared to 2017 and I think this will continue to persist.

Moderator: We just lost the line for the current participant. We will move onto the next question it is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala: Good evening Nitin Bhai. First question is on the full year numbers for FY2018 if you could just reiterate what is the revenue expectation that you are having, the margins expectation?

- Nitin Patel:** Based on the current order book and the way the execution is going on and without adding any of the new projects, so we have already mentioned last year that the of a Rs.3800 Crores we will cross the topline for FY2018 and the EBITDA margin will remain within the range of 11.25% to 12%.
- Ankit Fitkariwala:** Secondly Nitin Bhai on whatever projections that NHAI or the Ministry is making in terms of awarding and execution what is your sense because first quarter and even till date I think it has been very weak on both the fronts, so how do you see the year panning out?
- Nitin Patel:** Awarding, there is some change because of the regime of the last chairman, now chairman has also got changed in the Q1 itself, but it was very clearly intimated entire NHAI level that that – unless and until 80% of the land is not acquired, no bidding should be allowed, so now whatever bids are coming, so it is even that the 80% land is already there, so this is one part and second part in terms of the execution hybrid annuity was the new model almost understanding by the various banks, the private sector banks have understood very fast, but public sector banks they also have gone through the complete the nitty-gritty of the hybrid, they have taken a little more time, but now we have started seeing that the closure is happening actually on the ground and the work has been started on the various projects, so once the 80% because earlier all these bids, some of the bid there was a situation that the bids has been awarded even the 80% land was not there, but now the fresh bids everything has been clarified by authority.
- Ankit Fitkariwala:** So you expect anything like whatever 15000 and 25000 numbers that is being talked on execution and awarding we will reach anywhere close to that, but it will be much lower like FY2017?
- Nitin Patel:** That is an outcome obviously because what we understand that all this 15000 it is not NHAI alone actually, it is a ministry all put together actually, so NHAI per se we have seen in the past also the ratio of the bidding is almost they are touching about 70%, 75% they are covering, so we are of the view that 2019 is coming near by and it is a year of again the general election of the country, so definitely it may happen, now the ratio may go up further because there are a lot of land acquisition has been sorted out by NHAI at various levels now.
- Ankit Fitkariwala:** The mining contracts that you said in your opening speech in terms of the bidding three projects for Rs.1600 odd Crores, so have we dropped the idea of going for any of those large mining contracts that you are thinking or is it like not happening, so just want an update?
- Nitin Patel:** Now we have see that the MDO bids are coming, but internally at Sadbhav level we are of the view that because renewable energy the way the prices are going down and the way the coal quantity is lying surplus at various thermal plant as well as the Coal India level even at mining operations what we are operating as of now, now we are not seeing any kind of pressure from the Coal India to expect

desired quantity of coal on a regular basis. Earlier there was a lot of pressure at least one, one-and-a-half year, two years back actually, so we are of the view we have to wait for some more time actually before we jump in into the MDO, so obviously the contract mining and all these are going on, so according to based on that we will take a call because once we go into the MDO and tomorrow for any reason if slow down has been happening, so it will be much, much damaging situation.

Ankit Fitkariwala: Got it. Thanks Nitin Bhai.

Moderator: Thank you. Next question is from the line of Anish Hariprasad from Antique Stock Broking. Please go ahead.

Anish Hariprasad: Sorry Nitin bhai. I have got disconnected, just couple of questions. Can you tell me is there any increase in the subcontracting expansion YOY and currently what is the percentage of revenue, what is our subcontract expansion?

Nitin Patel: If I put it in a different way the construction expense on YOY if you see the Q1 of FY2017 it was around 82%, which has again come down to 79% for the first Q1 of FY2018 and Q4 of the last year it has little bit gone down and the main reason what we have seen that the large part of execution is being started, executed by Sadbhav Company itself actually, so earlier whatever subcontract was given large part we have taken over and now going forward we have also internally decided that no back-to-back subcontract kind of situation will be there except for some basically what we can occasional basis, but as a general practice we will not do anything.

Anish Hariprasad: Why I am asking this because even though our sales have increased 17%, our employee expenses has kind of stayed flat or in fact decreased by 2%, so I was just wondering if there is absolutely no increase on the employee cost?

Nitin Patel: Correct your point is valid. The main reason behind that almost 650 employees of the Katras area has been relieved by the company basically in beginning of the quarter itself because once we have issued the foreclosure notice there is no need to keep the people there, so that is the reason why the employee cost has come down.

Anish Hariprasad: Is there any revision in the mining order book because if I just see the Q4 and Q1 mining order book the difference is Rs.17.4 Crores, but in Q1 we have booked a revenue of around Rs.39 odd Crores, so just wondering?

Nitin Patel: No there is no kind of, only except for the price escalation movement rest of the things is same.

Anish Hariprasad: Okay Nitin Bhai. Thanks a lot.

- Moderator:** Thank you. We take the next question from the line of Devam Modi from Equirus Securities. Please go ahead.
- Devam Modi:** Congratulation Sir on a good set of numbers. How would you perceive the margin on HAM versus EPC? What would be our current EPC margins and how would pursue the margins on HAM?
- Nitin Patel:** Normally in HAM, we generally consider around at least 14% in EBITDA level plus at least 2% of the contingencies at the Sadbhav Engineering level, EPC level because if something contingency arrives for example some portion of the land is not available, so at point, in past experience is that Sadbhav has entered into and acquired the land at its own and whatever basically the difference is there they have taken hit in its own number actually without giving effect to the SPV or SIPL, so these will continue for this hybrid as well as the toll, BOT kind of projects, so that is way how we are – suppose if there is some savings is there, so definitely it will be added to the margin of the Sadbhav Engineering. So this is the way it works and in the normal EPC now if we consider in a different way, now what has happened last year the majority of the turnover basically topline came from the EPC business because five of the large EPC contracts were basically have contributed the revenue. Current year obviously the second half we will see more revenue from the hybrid annuity projects and going forward for FY2018 a significant revenue will come from the hybrid annuity, but to where we have now the play wherein EPC business we can basically go for a little bit competitive also and get the EPC business as compared to the hybrid because we had enough bucket is of the hybrid is already available and the EPC business, which is coming in the large number of projects, so definitely company will try to have a better edge because now the hybrid has started building up and going forward the new hybrid also likely to add further so this is way the bidding strategy may work for a coming period of time.
- Devam Modi:** Finally on the quarterly run rate now what would we expect on the mining front and what would be the expected margins over here?
- Nitin Patel:** Can you repeat the question please?
- Devam Modi:** On the mining front what kind of quarter run rate would we expect now going ahead and what would be the margins over here?
- Nitin Patel:** Second half of the year we are seeing that the mining will come on a quarterly basis around Rs.90 Crores in quarter.
- Devam Modi:** What kind of margins can we see over here?

Nitin Patel: Margins as usual almost around 18% what we are, say it may go 1%, 2% up also because all other clouds have been sorted out now no subcontracting is there, everything is at our own actually, so everything will be in a controlled manner what we are carrying out in a highway sector like that.

Devam Modi: One of the main things would be for this – in this quarter the margins which came high it was majorly due to almost 85%, 90% of the execution coming from roads because roads will have practically similar margins while irrigation and mining would have neutralized each other, would that be the correct understanding?

Nitin Patel: Mining neutralized because there is no significant contribution from mining in the quarter, irrigation whatever is coming there is no less margin so that is why as I mentioned right now that we will have a little edge to bid for EPC projects at more competitive number because that numbers will definitely generate a more margin that we are seeing in irrigation now actually, so this will definitely contribute the margin level at the company and now HAM projects also what the company has won also are at a very descent margin what we understand.

Devam Modi: Sure Sir. That is it from my side. Thanks.

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

Prem Khurana: Good evening Sir. Thanks for taking my question. My first question was with respect to our tax rates this quarter we have seen tax reversal and given the fact that we did almost Rs.150 Crores of revenues from hybrid annuity during the quarter, why should this number be net tax reversal because essentially on hybrid annuity we do not get any tax benefit 80IA benefits are not available to us, so is it that I mean we have written back some prior period taxes?

Nitin Patel: We had an unclaimed the MAT credit of the previous years actually and what we have worked out while closing these numbers we have seen that this credit will be available for entire full year also, so we had almost more than Rs.120 Crores of the credit still pending to be claimed, so this will nullify the tax effect for the whole year.

Prem Khurana: Sure so what could be the number for full year Sir, this quarter it is in negative 15, so what could be the number for the full year if you could help us with the number?

Nitin Patel: We can consider that the tax liability will be as it is taken as a zero also now because now the new tax liability when comes from the hybrid you have to contribute again this will get set off, so net-net we have to consider net liability will be zero.

- Prem Khurana:** Entire Rs.120 Crores would be used this year itself, so next year we would not get to have this unclaimed MAT credit which would come to any of us in FY2019?
- Nitin Patel:** But that depends upon the quarter-on-quarter how the contribution comes basically and which kind of new job is coming, but for any new job will not have the availability of the credit the current EPC how it moves on quarter-on-quarter that depends on the same.
- Prem Khurana:** On hybrid annuity side how much of work has already been done and what is the money that we have received from our Sadbhav Infra, so basically want to understand what kind of exposure would remain on a regular basis, every quarter you would raise some bill, so that bill would remain pending with the Sadbhav Infra, so if you could help me understand what is the work that we have already done and how much has already been received and what kind of regular number could be there on a quarter basis at the end of the each quarter let us say?
- Nitin Patel:** For the current quarter actually the contribution from hybrid for Sadbhav Engineering is almost around Rs.148 Crores actually, so what you would like to understand further?
- Prem Khurana:** Rs.148 is what you have executed during the quarter, last quarter again it was around Rs.50, Rs.60 odd Crores, which essentially means you have already booked Rs.200 Crores, how much money has already commenced, so Rs.115 is what you have said mobilization advance has come in right?
- Nitin Patel:** Correct.
- Prem Khurana:** So 85 is pending, so this number would remain - this kind of number only at an 85 would remain due every quarter or how was the number look like going ahead?
- Nitin Patel:** Ultimately the mobilization advance works in a different way actually, so it will – they are releasing before the end of 90th day from the appointed date actually and the recovery mechanism is something different in the mobilization advance, but this EPC execution is completely different based on the actual certification by the independent consultants as well as the lenders engineer at the project level.
- Prem Khurana:** Thanks. I will take it offline to understand better.
- Moderator:** Thank you. We take the next question from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Good evening Nitin Bhai. Sir first thing given our guidance the kind of orders that we have got what could be the capex for this year and next year maybe?

- Nitin Patel:** See for the current order all the capex has been done now there is no additional capex requirement for the current order book and for the new order book if any further concrete road or bitumen road I do not think there will be any additional capex will be require because whatever equipments are there within the system that itself will take care of the because itself all these EPC projects are going to complete on a quarter-on-quarter basis against that the whatever new hybrid but if the concrete roads is there all these equipments can be utilize there without any capex.
- Ashish Shah:** Sir for the irrigation segments what could be the revenue estimate for the year. For the mining you said we will have about 90 Crores a quarter going forward?
- Nitin Patel:** Yes that is for third and fourth quarter actually so we have the irrigation going forward we can see that the another three quarters we can have almost around say between 325 to 350 Crores of the additional revenue.
- Ashish Shah:** Sir come again on that?
- Nitin Patel:** Some 350 Crores of the additional revenue for the coming three quarters.
- Ashish Shah:** That is about it. Thank you.
- Moderator:** Thank you. We take the next question from the line of Rahul Agarwal from ICICI Prudential. Please go ahead
- Rahul Agarwal:** Thanks a lot for taking my question. Sir just one thing your mining of order book have the order book is close to 1680 Crores from what I see here on June 30, and we are talking about a 90 Crores quarterly run rate in this?
- Nitin Patel:** See actually this is for the Q3 and Q4.
- Rahul Agarwal:** So next year what are we talking about on this?
- Nitin Patel:** See next year we can say they are almost around 350 to 375 Crores. I mean the duration for completion is little bit longer and it is as per the desired quantity what exactly the clients want.
- Rahul Agarwal:** So can you just in this quarter's revenue breakup if I have to take off what is my margin in transport, what is my margin in irrigation, what is my margin in mining is that possible to give?
- Nitin Patel:** Broadly I can share that for irrigation the margin level is hardly around say we can consider around 3% to 3.5% maximum and in mining again almost around say at EBITDA level it may be around 14%

to 15% and rest is hardly from the roads and major part basically has been coming as on both the EPC as well as the HAM because in EPC the high value item is under execution and HAM has just started because but HAMs margin in across entire project is basically it will reach higher than the than the EPC margins.

Rahul Agarwal: Got it, Sir just one question on the tax I missed it so right now what kind of tax rate would be closing FY2018 according to you?

Nitin Patel: See FY2018 as I have mentioned that there will not be any tax liability for the company so ultimately we are eligible to get the MAT credit so whatever liability will be there it will be compensate at against the MAT credit available actually.

Rahul Agarwal: Thanks a lot and all the best.

Moderator: Thank you. We take the next question from the line of Partiv Shah from Jakob Stock Brokers. Please go ahead.

Partiv Shah: Good evening Sir. Thanks for taking my questions. Sir I have a couple of questions. The first question is regarding your talk on the metro segment today we had some news in terms of the government's new metro policy. I am just trying to understand the sense that you are getting from that policy and also what is your roadmap that you will envisage for bidding for these metro projects and what kind of margins you all have executed in the past history for Delhi projects you all did and a question linked to it is that would it make better sense going ahead in time to mobilize your resources from the irrigation segment into this new segment so that you save on the working capital network the irrigation segment does not bring very good margin so what is your view on that and also for the second question is your receivables caters from Sadbhav Infra Projects Limited and where are we at in terms of Sadbhav Infra Projects Limited trying to monetize a couple of its road projects that you have talked in the past and once that is done what kind of debt reduction would happen in HAM?

Nitin Patel: First of all let me give the reply to the metro bidding actually so metro post the DMRC project because DMRC project was also for us it is a prestigious and second thing so our joint venture partner that Corsan Corviam of Spain they could not complete the job and at the beginning itself they have left the entire job so we have to intervene because these are a joint venture partner with them and we have taken over and the completed the project. Obviously the margin front we can say that the we are not going to generate the margin in that project actually hardly if as we are coming out and taking back our what all the working capital then we should be happy actually and what is the exact situation seems to be but company has now the full set of equipments manpower and the all these technical setup for taking up the new basically metro projects and again we have already started looking

various metro projects obviously these all in the cities but some of the bids we have already started for submitting also and going forward we will continue to basically take part in the metro because now we had a reasonable experience certificate from the Delhi metro also for the basically bidding the metro projects on a standalone basis.

Partiv Shah: What margins are you expecting to have from such projects when you assuming the fact that you do not do along with the JV partner you do it on your own with all the capabilities that you have learnt?

Nitin Patel: See on an average we can say that the normal what margin we are making in the road sector that should be the basically ideal situation but it depends upon the this kind of competitive intensity is there and as well as which kind of project what is the complexity so all put together will decide the margin parameters so this is second part. The third thing the receivables between say SCL to SIPL even in say SIPL call we have mentioned that around 440 Crores is yet to be paid by Sadbhav Infra to Sadbhav Engineering so this is outstanding position as of June 30, between both the company and the fourth point as we have mentioned regarding this asset the two assets obviously company is under the nondisclosure agreement with the potential investors so we will not be able to give much input but obviously the transaction is on and the impact of this GST and this demonetization is through but the GST is now also smoothened up. Now in August also we have seen almost between 6% - 5% to 5.5% of the actual traffic growth as compared to August of the last year. So now the traffic seems to be on the regular on the trend and going forward what is happening in the traffic front for couple of months according to that we will finalize the whole transaction.

Partiv Shah: Sir any plans to mobilize your resources from the irrigation space to any new verticals because I believe that irrigation brings very low margins so does it make good business sense to stick with irrigation limited projects and yet in the past may be some receivable issues also along with government, state government contracts so any plans to kind of storing gradually taper down the irrigation business and move on to more higher margin higher return ratio businesses?

Nitin Patel: See normally there are two things in irrigation what when the other sectors are getting opened up so we have seen in the past also that we need not have to compromise in the margin front for irrigation also but only because of the straight in the other factors or the new bidding activity has stopped if you see the current pace of the Sadbhav and they have taken the irrigation job on a joint venture basis in the various states actually the period is that between 2012 and 2013 where the road sector bidding has almost closed by the earlier government in the last year due to various reasons and that is why because of that company has started focusing and at a little low margin company has started bidding before that Sadbhav has never basically bid the even irrigation project at a this kind of very low margin actually. So going forward yes the equipment wherever these are free we can utilize in to the road sector as of now whatever job is going on so that is interchangeability is very clear. There is no

other issue. Coming forward the EPC, road EPC if we can consider that the same kind of margin what irrigation says is 7% to 8% if I put the bid in the EPC with the same kind of margin so definitely we will be win some good job in the EPC front also in the road sector. So definitely company will determine the project basically it is own stuff for a coming period of time.

Partiv Shah: Thank you Sir. That answers all my questions.

Moderator: Thank you. We will take the next question from the line of Vaibhav Shah from ICICI Direct. Please go ahead.

Vaibhav Shah: Good evening Sir. Sir just with regards to your guidance about 3800 Crores would it be possible to share the details in terms of what would be the contribution from the hybrid project and what would be the contribution from the irrigation and mining as well as from the EPC project? Secondly with the considering 8300 kind of Crores order book and with 6000 to 7000 kind of order inflow and this year what would be the kind of FY2019 revenue we would be looking out?

Nitin Patel: On a broader term definitely depends upon the project but broader term we can say that the mining we can conclude the year with around almost closer to 300 Crores for the year and in irrigation around 425 to 440 Crores odd kind of because other things basically are on the track so all the projects are under and we would like to complete the project as early as possible. And in road sector again say between 3100 and 3200 Crores and out of that as we have mentioned that be around 1700 Crores, which was the outstanding order book as of March 31, of this EPC project that entire will got exhausted and rest will come from the hybrid annuity project which is almost around closer to some 1400 Crores odd.

Vaibhav Shah: Sir with regards to the FY2019 how should we look into it considering the current order book as well as the strong bid pipeline?

Nitin Patel: Bid pipeline is very strong. Road sector we are quite bullish. Obviously Q1 as I have mentioned because of the GST issues there was not much bidding but the bidding intensity has been started and if you see even in my opening remark, I have already told that the almost the nine projects we have already submitted the bid where the bids are yet to be opened and the series of these at now engineering level and as well as Sadbhav Infra level particularly in road sector so definitely road sector will be a major contributor followed by as there is a certain opportunity in irrigation, mining and this metro all put together so we will also try to focus on these areas and get basically other stuff. The most important part at the company level what we understand that earlier issues we are now we get rid of the all these earlier issues almost irrigation the projects in MP out of four projects two completion certificate we have already now applied for the completion certificate and rest of the two

this year we are targeting to complete that two also and whatever new we can take now everything will take at our own actually the execution will be at Sadbhav Engineering standalone basis.

Vaibhav Shah: Sir would it be like 15% to 20% kind of growth easily achievable in FY2019?

Nitin Patel: See ideally the internal planning is already we should grow basically minimum above 15% to 18% for FY2019 and according to that obviously all these the working and everything is what we plan and parallelly we are also thinking basically to more on the balance sheet front also because that the time as that is the current period whatever the aspect that we are our all these receivables from the clients that we will focus more also for the coming couple of quarters.

Vaibhav Shah: Secondly Sir with regards to the 440 Crores outstanding with the SIPL what is the timeline we are signing in terms of receiving these funds because these has been pending since some time only and if we receive this can we expect further debt reduction at the SCL level?

Nitin Patel: Obviously see ultimately because if you see at certain point of time these number went to a 700 Crores above actually from that now it has come down to 440 Crores and my last call also we have mentioned that the minimum even irrespective of the asset transaction happens or basically at what time we have to see that but other than that we are basically we have plan to reduce another 200 Crores from SPIL between SCL actually before the end of this year.

Vaibhav Shah: And finally sir if possible maybe it could be repetitive if you could highlight the tax rate for the full year?

Nitin Patel: Overall we are eligible to get the MAT credit because the contribution from the EPC is higher for the Q1, Q2 and even Q3 is going to remain higher, Q4 obviously HAM will be the higher than the same so but overall the eligibility to get the credit of the outstanding MAT so that will take care of the overall tax liability and so whole year we are considering that tax will be zero for the year.

Vaibhav Shah: Thanks a lot Sir.

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

Ashish Shah: Just wanted to check is the mobilization advance from SIPL is that going to be interest bearing or there would be an interest free advance?

Nitin Patel: No see it is at a bank rate actually – it is at the bank rate, it is interest bearing but at a bank rate so which is currently around 6%.

- Ashish Shah:** So basically it is a pass through for SIPL and because that is what SIPL also base pays?
- Nitin Patel:** Yes it is a pass through definitely.
- Ashish Shah:** So that is the pass through at a pass through rate.
- Nitin Patel:** Yes it is a pass through same back-to-back it will be transferred.
- Ashish Shah:** Also would you have handy the key balance sheet numbers like inventories, debtors; if you have otherwise it is okay?
- Nitin Patel:** See as of now off hand it is not available with me actually but as I have mentioned the debtor level has compared to the basically March it has gone down by 155 Crores and the other key number is basically the standalone debt outstanding from 1600 and which was above 1650 Crores at the end of March it has come down to 1450 Crores basically on June 30.
- Ashish Shah:** This number should I would say keep going down?
- Nitin Patel:** Obviously that is the main focus area as of now.
- Ashish Shah:** I am saying in the immediate quarter like in the September quarter, the December quarters you do not foresee anything, which would cause this number to go up apart from some normal business?
- Nitin Patel:** No there is no any such because all the projects are now on the track and whatever the new projects are going to start actually the initial site mobilization and everything has been happened except for the Udaipur Bypass and Mahagavarangar so rest the Bangalore BRT and this Nainital project the both are basically the site mobilization has been completed.
- Ashish Shah:** Thank you very much again.
- Moderator:** Thank you. Well that was the last question. I now hand the floor over to Mr. Nitin Patel for his closing comments. Over to you Sir!
- Nitin Patel:** Thank you very much to all the participants for taking their valuable time for understanding the Q1 FY2018 results of Sadbhav Engineering Limited. Obviously you all are aware that between FY2016-2017 and now in FY2018 apart from the couple of issues at site level for the irrigation as well as the DMRC project the important part of the transition of the management was there actually in the company level and everything has been now sorted out as we have basically discussed at a various meeting with the almost all levels and we have seen the execution is now coming on the well within

the track and going forward the focus of the current team of Sadbhav Engineering is very clear, focus on the core area of the where we have a very strong execution capability go for the basically well ahead of schedule completion of the projects, complete monitoring of the balance sheet numbers and to bring the numbers in such levels that the overall because but during the last seven to eight years basically company has consistently focussed on the very number of BOT toll projects apart from that almost more than around 450 to 500 Crores has been spent at SIPL level for the purpose acquisition of the part of the various joint venture partners either it maybe in Dhule Palesner, Ahmedabad Ring road, Hyderabad Yadgiri, Aurangabad Jalna so all these projects now everything is now sorted out everything is consolidated and going forward the hybrid annuity whatever equity requirement is there the internal accrual of SIPL itself is able to take care of the whole requirement even for the growth purpose also. This is the way the company intents to take it forward and obviously the as I have motioned the balance sheet numbers will be on a top priority for the coming at least three to four quarters. This is from my end. Thank you very much again. Over to you!

Moderator:

Thank you. Ladies and gentlemen on behalf of Inga Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.