"Sadbhav Engineering Limited Q4 FY2017 Earnings Conference Call"

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

Moderator: Ladies and gentlemen good day and welcome to the Sadbhav Engineering Q4 FY2017 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 please signal an operator by entering "*" then "0" on your touchtone telephone. I now hand the conference over to Mr. Nitin Patel, CFO & ED of Sadbhav Engineering Limited. Thank you and over to you Mr. Patel!

Nitin Patel: Good evening everybody. On behalf of Sadbhav Engineering Limited I warmly welcome all the participants to the earnings call for the quarter and full year ended March 31, 2017. I am sure you must have seen the media release provided on the stock exchanges today morning. FY2017 has been a year of consolidation for the company; we have also seen a transition of leadership in our company. Now I will first start with the financial numbers and updates of the company then we will discuss the business outlook and bidding pipeline. Income from operations for the quarter has grown by 20.39% to Rs.1032.80 Crores as against Rs.857.9 Crores last year. EBITDA for the quarter has grown by 20.7% to Rs.109.6 Crores as against Rs.90.8 Crores in the last year. Profit after tax for the quarter has grown by 95.36% to Rs.68.2 Crores as against Rs.34.9 Crores last year. Growth in execution was driven mainly by the road sectors EPC projects. Even the EBITDA margin for the quarter stood at 10.61% as against 10.58% in the same period of the previous year.

Now looking about the full year of FY2017 income from operations has increased by 4.21% to Rs.3320.30 Crores as against Rs.3186.20 Crores of the last year. EBITDA for the year has increased by 6.22% to Rs.355.60 Crores as against Rs.334.80 Crores last year. Profit after tax for the year has increased by 42.29% to Rs.187.80 Crores as against Rs.132 Crores last year. The higher increase in profit after tax is due to almost nil tax rate during FY2017 because of the higher execution of the EPC and irrigation projects.

The EBITDA margin for full year stood at 10.71% as against 10.51% of the last year. The overall debt for full year as on March 31, 2017 stood at Rs.1650 Crores. As discussed during our last conference call also during Q4 of FY2017 we have repaid mobilization advance worth Rs.165 Crores to NHAI towards the road EPC projects. This is in addition to Rs.113 Crores being repaid in Q3 of FY2017. During the current year we have started receiving the mobilization advance from the hybrid annuity projects and till now we have received Rs.113 Crores and the same has been utilized to pay off the short-term basically arrangement made by the company for repayment of the mobilization advance in the last quarter, so overall debt is expected to come down with this at the end of the Q2 of FY2018 because we have received just only the advance from the two of the HAM projects only, the rest is yet to flow in the system. During FY2017 we have done a capex of approximately Rs.39 Crores, even in FY2018 we expect to do a capex of around Rs.50 Crores majorly towards the purchase of critical equipment for the pavement construction basically EPC contracts and in relation to obviously now if we see considering the business on hand and the new projects, which are going to be started, so in relation to the guidance when we can stick to the numbers provided in our last conference call for order intake, the revenue and EBITDA margin also, so that has we have given the intimation in the last call also regarding the same.

Now on the execution front top five projects by execution during Q4 of FY2017 has been disclosed in the media release. We expect the entire outstanding order book of road EPC to be executed in FY2018 itself. We have already received the appointed date for the three hybrid annuity projects namely Bhavnagar-Talaja, Una-Kodinar and Rampur-Kathgodam package one and hence all these three projects will contribute for full year of FY2018. The another two HAM projects namely Rampur-Kathgodam package two and BRT Tiger Reserve Sanctuary to Bengaluru section will start contributing in Q2 of the FY2018 because the financial closure for this two project is completed and we are about to take the appointed date in both the projects. Two newly one hybrid annuity projects namely Mahagaon to Waranga and Udaipur bypass will start contributing in Q3 of FY2018 and onwards. The irrigation execution is going as per our expected lines. We believe the current outstanding order book of irrigation will exhaust by end of FY2019. In mining we are in discussion with again Bharat Coking Coal for a foreclosure of one of the project with outstanding order book of Rs.120 Crores, this is mainly because of our service tax matter and we are about to now just close that issue with BCCL.

Now the order book if you see as on March 31, 2017 stood at Rs.7683 Crores with L1 in two hybrid annuity projects, that is Waranga-Mahagaon and Udaipur bypass worth Rs.1575 Crores, so these two has been excluded in the same, so these two almost we are crossing Rs.9200 Crores. With these two orders road segment would contribute approximately 70% of the total order book of the company. Also we are again L1 in one mining rate contract worth Rs.140 Crores for which LO is expected in the month of September. The EPC of five hybrid annuity projects worth Rs.3128 Crores have been added to the order book during FY2017 including these two L1 order intake for FY2017 was Rs.4703 Crores.

Now before going to the bidding activity I would like to just touch with the implications of GST on our company and even sector also because all our EPC projects shall attract the GST rate of 18% as against the current rate of 4% to 15% while we get the input tax credit on all our material purchases of bitumen, cement, steel, etc., for all the projects and also on our subcontract of labour as well as the other services we will have to collect the incremental, but after getting all these credit we have to collect the incremental GST rate from the client, so currently we are in a process of understanding the total implications of GST more particularly on transition date due to input tax credit on stock work in progress capital goods obviously needs to be taken into account, so this is a process and what we understand that largely all these contracts more particularly the government contracts and obviously there is a change in law provision is there, but the government has to accept the incremental cost to all these contracts for the rest of the work to be executed, so this process need sometime and we are of the view that this may lead to little incremental requirement of this working capital to the extent of basically government actually start refunding or contributing that cost actually, so this is we would like to touch with. Then now we will start with the road segment if you see the bidding activity has slowed down the bid in the first two months of the current year; however, there are the 10 projects under EPC mode from NHAI at the length of 447 kilometers worth Rs.7370 Crores for which financial bids are yet to be submitted before March 30, 2017. There are five projects under EPC mode from the roads and building department Government of Gujarat for a length of Rs.197 kilometer worth Rs.2374 Crores for which the financial bids are to be submitted before June 30, 2017. We are sure that NHAI will come up with many new bids under the EPC segment. The competition continues to remain high in road EPC segment. Apart from that the Vadodara to Kim expressway project is likely to bid out in EPC mode worth Rs.7200 Crores, which currently they have basically stated that it will come under the toll projects, but the internal NHAI is now finally closing and converting into the EPC what we have got the news from NHAI.

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 a sizeable EPC business out of the HAM bidding, apart from all these EPC. Now on the mining front, there are seven bids of overburden removal segment worth Rs.2872 Crores for which the financial bids are to be submitted before June 30, 2017, so there are three bids in MDO segment for which the financial bids are to be submitted same before June 30, 2017 and irrigation there are the five projects worth Rs.1343 Crores in the state of Andhra Pradesh, Karnataka and MP for which the bids are required to be submitted before June 30, 2017.

In addition to above, the company is also evaluating the opportunity to submit various bids in metro construction segment as the company has successfully implemented the prestigious Delhi Metro project entirely with its own resources. Now I would like to obviously, this was mainly pertaining to the business and here I would like to further say that under the new leadership of our new CMD, Mr. Shashin Patel along with other well experienced promoter as well as other board members we are very much confident of scaling new high on execution front in FY2018 and as obviously we have said earlier also and every time we are saying that and we would like to reiterate again that the company's consistent focus is on boosting the return on capital over coming period of time vis-à-vis the strengthening of balance sheet position at entire group level, this will continue and we will see at every quarter basically incrementally this is basically likely to come up for a coming period of time and apart from all these what we would like to mention here that in FY2018 we will see the change on every quarter-on-quarter that the shift from the EPC execution to the HAM execution, so this will also, we will give the incremental basically, the requirement of the working capital will get reduced to that extent actually in all these HAM projects because the working capital cycle is very much less in these, so this is overall what we would like to, I would like to mention here for the floor, so thank you very much for listening the opening remarks. Now I will request to start of the question and answer session. Thank you very much.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Good evening. Sir tell us one thing the Rs.1650 Crores debt, how much is yet to come from the SIPL to the Sadbhav and also if you can give a breakup how much we actually lended over the last two quarters towards the equity of the HAM if we have and towards the working capital for the HAM projects?

Nitin Patel: Now first of all the answer to your first question the outstanding loan from SIPL as of March 31, 2017 is around Rs.430 Crores, so this is one part. Second thing funding towards the HAM project the EPC working capital basically, working capital for the EPC execution, so the execution has been started in the quarter itself actually, the bills has been certified by the lenders, engineer and it has been submitted for payment, but payment has been received in the month of current quarter Q1, so the outstanding payment along with working capital I think it will be to the tune of around Rs.70 Crores, Rs.75 Crores for three of the HAM project and in terms of the equity funding, so there is no equity funding has been made by Sadbhav Engineering towards the HAM, everything is being funded by SIPL itself actually and here I would like to reiterate that all the HAM projects where we achieved the closure, so we have agreed to basically close the term sheet with the lenders that the company will brought in around 25% to maximum 30% of the equity only upfront and rest will basically go as and when the progress executes and even the 25% of the equity will be funded at the time of COD actually, so that will be only given in form of the bank guarantee to the lender, so obviously the funding requirement to that extent will come down, but everything is being funded and going to be funded from SIPL level only.

Nitin Arora: So Sir if I remove from Rs.1650 Crores Rs.430 Crores number, which is due from SIPL today Rs.1220 Crores is my core EPC debt at this point in time?

Nitin Patel: Obviously see there is another point basically I would like to mention here that even during the various conference call I have mentioned that the company has taken over the work from the joint venture partners, so mainly the DMRC from Corsan and as well as this GKC project irrigation work, so if I contemplate that almost around Rs.270 Crores to Rs.290 Crores of the additional working capital has been pumped in by the company, out of which we have already started receiving in Q1. In

Q1 itself, we have received almost around Rs.85 Crores to Rs.90 Crores from the irrigation segment. That is one part. Second part the EPC project what we have taken actually and if you see that during the entire FY2017 large execution was in the EPC front and in EPC the payment mechanism is such that it requires huge additional working capital requirement, so this has also created the additional requirement of the working capital in the EPC projects. What we understand as and when it will start completing, so we will be able to get back all this money from this basically EPC projects itself.

Nitin Arora: Sir in your assessment how should we read your debt now going forward assuming Rs.430 Crores number remains fixed from the SIPL how should we look at your debt towards the first half and towards the end to close that?

Nitin Patel: See the first half we are expecting to get it reduced by at least Rs.200 Crores and in the second half again as and when the EPC will be nearer to completion so that we are expecting another Rs.200 Crores to Rs.250 Crores will come down by the second half itself and incrementally in the HAM projects as I have mentioned no much working capital will be required because everything is being paid off on a regular basis as per the certification.

Nitin Arora: Sir with respect to I just want two numbers can you tell us what was the FY2017 revenue from the BOT projects not from the HAM from the BOT projects and what was the revenue from the HAM projects for the FY2017 and if you also can give me the figure is there any order backlog, which is still left from the BOT?

Nitin Patel: From HAM, it is certified revenue from the HAM project is to the tune of around Rs.47 Crores to Rs.48 Crores is there as per the certification by lenders engineer.

Nitin Arora: This is for FY2017 you are saying?

Nitin Patel: This is for FY2017. The total revenue from the BOT is Rs.332 Crores only, which includes the HAM portion and from EPC it is Rs.2202 Crores, so this is the difference.

Nitin Arora: Because Sir in your segmental presentation the total revenue from the BOT is Rs.332 Crores.

Nitin Patel: Correct.

Nitin Arora: So where are the accounting the HAM revenue and the cash contract is about Rs.2199 Crores, so where is the Rs.47 Crores, Rs.48 Crores getting accounted?

Nitin Patel: In BOT segment only.

Nitin Arora: In BOT only?

Nitin Patel: Yes.

Nitin Arora: And there is no order backlog left now from the BOT everything is done right Rohtak-Hissar everything is now being?

Nitin Patel: Maharashtra Border check post is there and I think rest is everything is covered except in the coming Mysuru-Bellary is there actually. Even in Mysuru-Bellary I would like to reiterate that almost to the tune of around Rs.95 Crores of the variation work has been ordered by the government and out of which the company has executed almost closer to Rs.60 Crores of the work for which the payment is yet to be received from the client, as per the variation order we have to execute that is a contract terms and conditions, so that has been included in this BOT revenue or so and balance will come in the basically coming year or so, but incrementally it will continue to increase because HAM will start contributing more and more in every quarter right now.

Nitin Arora: Sir in your assessment next year how much you are looking each from the each segment if you can guide us let us say from the HAM because BOT in which I think the order backlog would not be more than Rs.150 Crores or let us say Rs.160 Crores correct me if I am wrong, so you are left with around Rs.3100 Crores or Rs.3050 Crores of HAM, how much we are looking to approve in the P&L next year from the HAM, from the EPC, irrigation, and mining that will be really helpful Sir for FY2018?

Nitin Patel: See if I distribute basically the segment wise if you see the BOT, the outstanding order book, which is almost Rs.3203 Crores this is except for two of the hybrid annuity projects. Out of Rs.3200 Crores at least Rs.1300 Crores to Rs.1350 Crores will be executed in FY2018 itself, so the entire EPC balance of Rs.1790 Crores will get exhausted. Irrigation we are expecting around Rs.500 Crores of the execution in FY2018 and mining it will be around Rs.400 Crores to Rs.425 Crores basically, so this will be the ballpark. Here we have not added the contribution from two of the additional HAM what we are already L1, but that will start contributing from the H2 once we get the basically financially closed and we will actually start the execution.

Nitin Arora: Sir if I can squeeze in one more. The two L1s, which you talked about Rs.1575 Crores, in your next year guidance is that number included and what is your guidance of order intake?

Nitin Patel: No that has not been included, so see order intake in FY2018, we have already mentioned in the last conference call also, so we are planning to add almost around Rs.6000 Crores to Rs.7000 Crores of the total order book including all the segment and I have mentioned in my opening remark that the company is looking for the various metro construction projects, so actively we have started putting the bids in metro construction also. This is also one of the transportation segments what we consider it. So this is basically the broad guidance we can say that this will be the business intake will be there.

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

Moderator: Thank you. We have the next question from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala: Good evening Nitin. My first question is that can you just reiterate the guidance for FY2018 in terms of revenue and EBITDA margin?

Nitin Patel: See last quarter when we have discussed we have mentioned that we will cross Rs.3800 Crores of the topline mark, so that we can conservatively tell that we will be able to achieve because all the HAM the three has already been started, two are about to start and two we are confident that we will be able to get started in the H2 and there is a strong basically execution this full fledged execution is going on all the EPC front, so all put together we are of the view we will be able to cross the same actually.

Ankit Fitkariwala: Nitin on my margins?

Nitin Patel: We have also mentioned that the closer to 11% EBITDA because HAM will contribute the higher margin as compared to the EPC and that will give some incremental basically numbers so far as margins are concerned, but obviously as I have mentioned that initially the transition phase of the GST is very much important for all the construction companies basically because the contract is something different what everybody has taken and that is a big, big step reform, big change is coming. All the government contracts, so government has to simultaneously parallely make all the arrangements to set off and compensate all the incremental cost to the construction companies, so this also needs to be watched by everybody basically including us and even at the government level very basically closely.

Ankit Fitkariwala: So Nitin just to understand this GST impact better, so you said in your opening remarks that we have to pay 18% GST whereas currently we were between 4% to 15% right, so the benefit that we used to have 80 IA benefit on the EPC contracts still continues right?

Nitin Patel: That is coming under the income tax act, so when EPC execution that contribution so far it is higher because I have mentioned that we almost pay Rs.2200 Crores of only the transportation segment EPC has been done in the year, so obviously the eligibility in the ATIA is high, but in GST I think there is no connection with the ATIA actually.

Ankit Fitkariwala: Correct so the ATIA benefit continues as it is whatever we are billing to the client they will have to pay tax, so that increases, which is not accounted for in our current contracts and that is why there will be a change in the value that we have to get from the client right?

Nitin Patel: See benefit of ATIA most probably it will be exhausted by another two quarters actually because once HAM will start contributing more, so their benefit will go actually, but so far as GST is concerned obviously it is based on the input credit and the 18% is fixed on our topline that we have to add it to the client, but bottom we have to basically collect it, but if because and everybody we all knows that construction sector itself is not so organized actually, so there may be initial hassle and challenges in terms of getting 100% of the input credit, so these all factors needs to understood particularly in the current tax structure, VAT, and everything everybody is aware even the company like us in so many of the contracts we are basically selecting the composition of the tax and we are paying just 5% of the topline and coming out of all these stuffs actually, so this is everything is getting changed. So that is why I have thought that it is better to discuss clearly on the conference call.

Ankit Fitkariwala: Nitin my second question is on the two new HAM projects where we are L1, your release says that the letter of award has to be received within 60 days right, but for both the projects the 60 days is almost done, so we have not received the letter of award?

Nitin Patel: L1 we have received. We have incorporated the new SPV. All the documents for signing the concession agreement have been sent along with the bank guarantees and everything to NHAI. Now NHAI has to give a date and we expect that within a couple of weeks NHAI will give the date for signing and we already started the process of achieving the financial close. So everything will be on a track and more particularly Udaipur Bypass because this is a project earlier, which was bidded by the GMR under the 555 that Ahmedabad, Udaipur, Kishangarh project, so everything is basically acquired and NHAI basically even today they are foreseeing us to start as early as possible, so once we sign the concession agreement we will take the situation. We will try to start early also.

Ankit Fitkariwala: Nitin last question on the standalone debt, you said that you are seeing around Rs.400 Crores to Rs.450 Crores of reduction in FY2018 can you just throw some light on how you are expecting to do this?

Nitin Patel: If I mention here that largely mainly the core of the contract three irrigation contracts along with the GKC project what we have taken and one the DMRC with the Corsan where the company has infused incremental working capital, so that is about to complete. Two we have already completed, we have already issued the completion letter to the client and in Q1 itself for these two projects we have received around Rs.70 Crores to Rs.75 Crores just now and we are expecting that another basically the outstanding amount will flow within the system within a couple of two to three months' time and apart from that the other variation work as I have mentioned in the variation in the Rohtak-Hissar, there is even variation in the Mysuru–Bellary given also the couple of BOT projects more there. We have already executed the job where the authority has given the variation order, but they are about to release the fund, so this all will start flowing and thirdly as I have mentioned as and when the EPC will start completing, so that as and when it will start completing all the outstanding money because the payment condition is on the basis of the certain percentage completion of the work, so that will also start flowing into the system, so this will definitely reduce the working and only because of this only it has been increased actually.

Ankit Fitkariwala: Any schedule of this Rs.430 Crores that we have given to SIPL anything that we are expecting to receive from SIPL?

Nitin Patel: Obviously SIPL is basically trying very hard to get it pay off and if we see that on a gradual basis it is coming down and down, so we expect that and if everything goes through SIPL may close everything within FY2018 itself actually.

Ankit Fitkariwala: Thanks Nitin for answering my questions.

Moderator: Thank you. We have the next question from the line of Rahul Agarwal from ICICI Prudential Life Insurance. Please go ahead.

Rahul Agarwal: Thanks for taking my question. So Sir just on the conceptual level actually just wanted to understand this. We have got this mobilization advance for which we are actually extending our debt as well, so my understanding was once you get your mobilization advance you get your execution into place and then you generate and then you payout that mobilization advance. If we are always going to rely on another project’s mobilization advance to pay off previous projects how does that actually work?

Nitin Patel: Here the condition of advance was that from the date of releasing the advance within one year it is to pay off, if it has not been paid then it will attract 18% interest, so to avoid that. Normally what is happening in the contract once we get the advance after completion of the 20% of the work and before completing the 90% of the work it gets adjusted in every bill and it is being settled. So there is no onetime payment or onetime outgo. Here the situation is that after getting the advance work could not start within just six months because there are the various side issues then after we have actually started the work and when just we reached the 20% of the work then everything needs to be paid because 18% interest is not advisable to pay by the company, so that is why we have organized some short term arrangement bridge and funding and that has been paid off. Now what will happen that every month when the execution is happening we are getting the incremental cash because earlier we were supposed to pay back now we have incremental cash, this is also coming into the system. Apart from that the new advance is also coming into the system, so that is why it will help to pay off this debt at earliest basically even before completing the 90% of the work, so that is the way how the economics is being setup.

Rahul Agarwal: So is there a scenario where you let us say in HAM also for some reason it gets delayed for that we might end up increasing our debt later because that mobilization advance will also need to be paid?

Nitin Patel: No. In HAM the situation is different. First of all appointed date in HAM does not take place unless and until 80% of the land is there number one, so that is a completely different case. Your authority even today, authority on NHAI Chairman does not sign basically the letter for giving the appointed date. So that is why the complete difference is there and in HAM also the additional advantage is from day one every month whatever work we will execute we will get the payment basically just within 15 to 20 days of the next month, so that is why the requirement that will also be reduced to that extent.

Rahul Agarwal: Great Sir! Secondly on this HAM thing, we are seeing exactly what is the difference in the working capital between your EPC execution and your HAM execution?

Nitin Patel: See EPC the methodology is more or less the same, but EPC the issue is the payment condition what NHAI has stipulated that it is on the basis of certain percentage, so unless and until we complete the particular top of the layer all the below layer cannot be, just for example I can tell you we are constructing one Yamuna bridge at Eastern Peripheral Expressway, which is very prestigious project direly monitored by Prime Minister himself, so in that work unless and until we complete all the CAP, all the CAP level, all the peers, we will not be able to get. Rs.180 Crores has been spent to reach that level and then after we got a payment of entire Rs.180 Crores back actually debt or whatever margin plus margin, way how the situation works.

Rahul Agarwal: How does it change in HAM?

Nitin Patel: See in HAM it is completely different because the payment is on basis of the actual work certified obviously the engineers appointed by the lenders and based on the actual execution the payment will flow on every month. So we need not have to wait for basically the percentage completion.

Rahul Agarwal: So it is a monthly payout in that sense?

Nitin Patel: Pre monthly pay out.

Rahul Agarwal: What is your margin differential there?

Nitin Patel: In HAM obviously some contingency is being added because all the design and all the other basically restuff pertains to the EPC contractor or developer, but here even what we can say even in the current model of the HAM lot of risk has been taken out because all the land acquisition risk, if the land could not be made available within six months from the appointed date even 20%, 10% whatever that can be taken out from the concession itself. So all the delay and everything can be avoided, so what we understand that it is relatively a far better structure. Even the competitive intensity is less in HAM projects, so that is why the incremental margin in the HAM is higher actually.

Rahul Agarwal: So is there anyway to quantify it or it is too early?

Nitin Patel: Yes definitely.

Rahul Agarwal: Is there anyway to quantify it?

Nitin Patel: Quantification if you see if there are the 15 people are putting the bid in EPC and as against the five or four people are putting the bid in HAM, so naturally the margin basically level will go up actually. That is way how and if you see basically the winning we have also submitted lot of EPC bids also, but somehow basically because of huge competition the bids are going at 20% to 25% below the NHAI estimated cost and you see the HAM almost all the projects has been bidded out higher than the NHAI estimated cost. That is the clear difference.

Rahul Agarwal: Sir on this HAM only this financial closure will it be possible what kind of interest cost has it got closed at?

Nitin Patel: We have already disclosed basically all the structure of the financial close in the stock exchanges also, but here I can tell that we have achieved the closure at nine quarter for all the five HAM projects during construction period linked to the one year MCLR of the respective banks.

Rahul Agarwal: So next on the MDO is there any progress or what is the current status and how many bids have we done?

Nitin Patel: Two of the bids we have submitted, but obviously we could not succeed. Even one of the bid recently we have participated in the first round itself because there is a reverse bidding mechanism, so first round itself we came out because the numbers people have started bidding and it went substantially below than what we have estimated. So obviously we do not want to take the MDO even first MDO even that kind of way basically procedure.

Rahul Agarwal: So right now nothing is in pipeline from that aspect?

Nitin Patel: Bids are there. There are three more bids are to be submitted before, the preparation is going on we are in a process to submit the bid, but definitely it will be at our terms and conditions not to take this MDO in mining aggressively.

Moderator: Mr. Agarwal I am sorry to interrupt, but there are participants waiting.

Rahul Agarwal: Sure I will get back in the queue. Thanks a lot Sir!

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

Amit Sinha: Thanks for the opportunity. Sir number one question is on GST. Now if I compare the current indirect taxation of the projects and as you mentioned it is 4% to 15% can you please explain the breakup of the different taxation or this 4% to 15% is all VAT?

Nitin Patel: Major part is VAT actually. We can say the service tax basically so many services what we are taking. Excise duty on basically the capital goods, input, and everything and obviously the other taxes if we say more particularly say the local body taxes actually when it is compared within the state or within the city area, so this kind of all taxes are there. Even we have to procure the material sometimes by paying the 2% CST and then we have to pay the particular respective VAT of the particular state. Even there are basically purchases from the unauthorized dealers because large number of players within the vicinity, some of the goods say local items mainly are coming from the authorized, so these all needs to be channelized now because everything we have to get input credit of the same.

Amit Sinha: The range, which you have given is basically for different states?

Nitin Patel: States as well as the different taxes also.

Amit Sinha: What should be the weighted average number for Sadbhav roughly ballpark number?

Nitin Patel: It is very difficult to find out, but normal I can tell that in composition when we are adapting the composition we are paying the 5% to the government straightway, no input credit that is all. Whatever purchases have been made by way of paying the excise duty, VAT, and everything, so that is our cost and over and above we are paying 5% to the government as a composition tax.

Amit Sinha: Right Sir and if we do maths on the input tax credit, which we can get on the GST regime then what would be the amount that will add up to how much reduction that can mean from 18% rate?

Nitin Patel: To some extent it may come down, but most important part is that to channelize all these things actually the input credit because the seller who is selling the material that itself is basically needs to be worked out because there are so many complexities in the current law even GST also it has been mentioned, so now we have to actually see that whether the credit is being basically passed through and if some another vendor is making a mistake in terms of putting his data, so we will not be able to get the credit we have to pay the tax and later on we have to identify, find it, and get basically credit. Even they have made some timelines within 180 days you have to make all the payments and otherwise it will get reversed, so lot of things has been linked into basically new law, so the implication of that and first of all as I have mentioned the most important part is the transition. So how the current lying stock, current lying working progress, even current basically the capital goods how it will be. Straightway we will basically shift into the new GST regime and where because actual work we have to execute we have to complete the balance job we have to load 18% to the client and get the input credit of all these items. So this needs to be worked out properly. Initially, there will be some hassle obviously for everybody, but slowly things will come up in a regular way.

Amit Sinha: You would have obviously sent representation to NHAI because for you most of the projects are NHAI projects at this point of time, so any kind of commentary from NHAI to make this higher taxes passthrough in the project?

Nitin Patel: See as of now what we understand this government is just in a process of determining their own tax rates and how they will basically impose and everything. How they will give the credit I think they are yet to work out, so just we have to see that how it is possible within one month's time all this clarity. We have already started the process because every contract has different, different clauses. So based on the every clause, even state government has a different state contracts, NHAI contract has different clause, so this is the way we have to contemplate on a contract basis.

Amit Sinha: Right Sir! My second and last question is on our mining and irrigation segment. We have seen very, very muted kind of order inflow in the last couple of years in both the segments, is there a very straightforward strategy from the company side that since we have got enough order inflow coming from the road segment, so the focus on the rest of the segment is lesser or is it more of a sectoral issue?

Nitin Patel: No. I just would like to mention historically if you see Sadbhav right from 2006 up to 2012, 2012-2013 also even 70% of the business was coming from road sector itself. In between there was some reduction and some challenges at the government front, clarity clearances, lot of other ground level issues, so that sector could not perform and the company has started increasing the irrigation and mining business. So all put together the view is that say between 70% to 75% of the business will continue to come from road sector and remaining say 25% to 30% will be from the irrigation and mining. So this will be the strategy for coming period of time. According to that we will continue to build up new businesses.

Amit Sinha: That is it from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Bharanidhar Vijayakumar from Spark Capital. Please go ahead.

B Vijayakumar: Good afternoon Nitin. Sir if I understand right you had mentioned that no equity from SIPL has gone into the HAM projects so far right?

Nitin Patel: From SEL. SIPL everything has gone from SIPL only.

B Vijayakumar: Can you give us the number Sir for the first three HAM projects how much equity we would have put in?

Nitin Patel: I have to verify the SIPL data.

B Vijayakumar: So my question is how much is the gross equity that we would require for all these seven HAM projects totally.

Nitin Patel: See first of all let me see just about the hybrid annuity so far we have infused Rs.115 Crores in the four hybrid annuity projects.

B Vijayakumar: Rs.115 Crores by SIPL?

Nitin Patel: By SIPL only.

B Vijayakumar: This is after the O&M and EPC part that SIPL executes or this is the gross equity?

Nitin Patel: This is the gross equity actually.

B Vijayakumar: The gross equity requirement by all these seven HAM projects would be how much Sir around Rs.550 Crores?

Nitin Patel: Almost, correct, closer to Rs.550 Crores.

B Vijayakumar: Of that we would get some part as O&M and EPC portion for SIPL right, so how much would that be Sir?

Nitin Patel: Almost to the tune of around Rs.370 Crores are yet to be taken from the O&M portion.

B Vijayakumar: Understood. So basically it is about Rs.180 Crores net equity would have to put in, that is SIPL would have to put in.

Nitin Patel: Apart from that here if you see the SIPL at SPV level, as against our bidding estimation of around 11% of basically the rate of interest during construction, so the closure has been achieved at nine quarter, so all these benefits will continue in SIPL itself. To that extent actual requirement may…

B Vijayakumar: Yes Sir, that is great. My second question is on our working capital in the standalone. So working capital base has increased to I think 180 days at the end of March, which is increasingly net working capital that is 12 working capital days also, so how will this number move going forward Sir?

Nitin Patel: Obviously it will naturally now as and when the HAM has started now contributing, it will definitely going to come down and down number one, and second thing, there are various, say, more particularly in the BOT three or more projects basically Rohtak–Hissar and Mysuru–Bellary, even in some of part in Maharashtra border check post. Some of the execution has been done by Sadbhav Engineering for which the amount is yet to be received. This is based mainly the government order decision and normally the government makes the payment at least they take one to one-and-a-half year for releasing the entire payment and another thing as I mentioned the large amount basically has been blocked in the irrigation as well as the DMRC project for which now we are near to closure, so this has also started flowing back. So obviously in every quarter we will see that it will continue to come down.

B Vijayakumar: So in quantum terms, rupees Crores terms, how much of these money can be expected back in FY2018 Sir that is from the irrigation project, from Rohtak–Hissar projects?

Nitin Patel: See, all put together we are of the view that between Rs.450 Crores will again came back by the end of, so it will come down to that extent.

B Vijayakumar: So around Rs.400 Crores would come back?

Nitin Patel: Yes, correct.

B Vijayakumar: Final question on our revenue guidance for FY2018 execution, so you said most of the Rs.1700 Crores of the EPC road projects would get executed in FY2018?

Nitin Patel: Correct that everything will be executed.

B Vijayakumar: These three HAM projects would contribute close to Rs.1300 Crores in FY2018, right Sir?

Nitin Patel: Yes, five projects because we have added the order book of the five HAM, out of that two will add basically in the second half.

B Vijayakumar: So, that is about Rs.3000 Crores plus another Rs.900 Crores from irrigation and mining that is about Rs.3900 Crores for the year?

Nitin Patel: We have mentioned Rs.3800 Crores will be the numbers what we are seeing.

B Vijayakumar: That was all the questions. Thank you for answering the questions and all the best Sir!

Moderator: Thank you. We have the next question from the line of Anup Agrawal from Cogencis. Please go ahead.

Anup Agrawal: Sir, thank you for taking my question. I just want to know what is the total number of projects that you are going to bid for in this coming year across all the segments and which are the metros that you are looking to bid for?

Nitin Patel: The visibility of the bidding obviously we can share up to June 30, 2017 as I have mentioned in my opening remark also that almost around 10 projects in the EPC around 447 kilometers of Rs.7370 Crores under the EPC mode. Given five projects under the EPC from Department Government of Gujarat. Earlier 10 were from NHAI, then five from Government of Gujarat worth Rs.2374 Crores. Eastern Peripheral Expressway almost costing Rs.7200 Crores. That will again come under the EPC mode. So, this is the clear visibility of the bidding as of now so far as the road sector is concerned and even in this mining there are Rs.2872 Crores of the seven bids at the three of the MDO projects, so all these to be bidded before June 30, 2017, and project under irrigation Rs.1300 Crores, so this is a visibility up to June we are having and in hybrid annuity also in the last SIPL conference call we have mentioned that almost around closer to Rs.18000 Crores, Rs.19000 Crores of the bids are there in the pipeline, so this will be significant.

Anup Agrawal: My last question Sir, which are the metros that you are planning to bid for?

Nitin Patel: Again, to start with the Mumbai metro, may be even Pune, even Bengaluru, even second phase of the Nagpur, Ahmedabad-Gandhi Nagar second phase so all these basically we have started looking for bidding now.

Anup Agrawal: Thank you Sir!

Moderator: Thank you. We have the next question from the line of Anish Hariprasad form Antique Stock Broking. Please go ahead.

Anish Hariprasad: Just a couple of questions. One what is the land availability on the Waranga and Udaipur especially Waranga?

Nitin Patel: Waranga currently 80% of the land is not available but what we have been told by the concerned RO Regional Officer of NHAI that they have already started distributing the fund for the earlier phase and three denotifications they have crossed basically 80%, but what NHAI even Chairman has clearly told that unless and until payment for 80% is not released give the appointed date. For these projects particularly we have another six months' time actually as per the concession agreement. So we are quite hopeful that it will be over, but in Udaipur bypass everything is available.

Anish Hariprasad: Because I think the three stretches ahead of Waranga is also facing the same problem.

Nitin Patel: Currently obviously 80% is not there, but NHAI has still time and they are basically in the process, so hopefully it should be over.

Anish Hariprasad: Second question is in Q3 concall you mentioned that roughly around from Rohtak–Hissar we are supposed to receive somewhere around Rs.70 Crores odd and there was also Rs.55 Crores of claim pending, so what is the status on that?

Nitin Patel: See, now what has happened that out of Rs.70 Crores Rs.28 Crores has been released by NHAI, so balance is pending and that Rs.55 Crores obviously NHAI has sought the certificate from the statutory auditor that Sadbhav Engineering is yet to owe from the Rohtak–Panipat and what we understand that the matter is almost at a final level most probably by June we should be in a position to basically get through from the NHAI.

Anish Hariprasad: This almost Rs.40 odd Crores by when can we expect to receive the same from Rohtak–Hissar, you mentioned that Rs.28 Crores we have received?

Nitin Patel: Balance has already now went to the member level at NHAI headquarter. As and when the EC, the Executive Committee meeting will happen. This will also be through within a month's time or so basically because everything all certification from all level is through now.

Anish Hariprasad: Just second question, this BCCL order book, I know this is an old subject, but just for a practical purpose, just wanted clarity, whether this Rs.130 Crores we are carrying in the order book, and should it be more practical to just remove it from the order book?

Nitin Patel: Officially it has not closed actually, but the initiation has been done by us as well as at client level. So when we officially get it through definitely we will be able to make it through because we are yet to get around Rs.35 Crores worth of the service tax payment from the client. I think next week there is a meeting with Chairman of BCCL. Most probably if it is getting through we will be able to come and basically clear it.

Anish Hariprasad: Sure, and one just last question, on the tax rate. What tax rate do you see for FY2018 and FY2019; around 20% for FY2018 and full for FY2019, should that be a fair assumption?

Nitin Patel: FY2018 we can consider 20% because Q1 we will have and most probably Q2 there will not be much debt liability. Q3 onwards the tax will start flowing. So obviously we can consider on an average 20% and in FY2019 obviously when the EPC and everything is getting exhausted and what new orders are coming under FY2018 basically, so that will drive, but basically if major part is coming from the HAM and not much from the EPC, so definitely it will be a full tax.

Anish Hariprasad: That is it from my side! Thanks Nitin.

Moderator: Thank you. We have the next question from the line of Rita Tahilramani from Edelweiss. Please go ahead.

Rita Tahilramani: Congratulations Sir on good set of numbers. Sir, I just have one question, why did we withdrew from the Mumbai Metro line-4 and line-10?

Nitin Patel: The issue is not from the Sadbhav side because Sadbhav alone was not getting qualification, the way the qualification has settled. We have formed a joint venture with one of the North Indian company, so after some discussion with that company we have decided that we will not go for the final bidding of the project and there was some of the document issue that he could not get it within the timeframe, so that is why we came out.

Rita Tahilramani: Will we bidding for the other projects now, upcoming projects?

Nitin Patel: Yes, everything is now on track. Even if we could have got, we have just asked for a one-week extension. If we could have got then we could have made everything through.

Rita Tahilramani: That is it from my end. Thank you.

Moderator: Thank you. We have the next question from the line of Prabhat Anantharaman from Batlivala & Karani Securities. Please go ahead.

Prabhat Anantharaman: Thanks for the opportunity. Just one thing, you mentioned the current outstanding amount that SIPL owes Sadbhav Engineering is roughly Rs.430 Crores, right?

Nitin Patel: Correct.

Prabhat Anantharaman: Sir this amount in the end of Q3 you mentioned was Rs.380 Crores, so has there been an increase in the outstanding, have we given something between the quarter and you had also mentioned that you are looking to get this amount to around Rs.270 Crores odd by Q1 end, so if you can just throw some colour on that?

Nitin Patel: Obviously around Rs.55 Crores of the funding has been made by Sadbhav Engineering in Mysuru–Bellary actually in lieu of the grant receivable from the Government of Karnataka. So it was the obligation of the government to release the grant when the work has been certified independent consultant has paid to release the grant, so he could not make, so that is why to get further funding and further regular basically billing from the lenders company has basically infused the additional money to the same and that will be on behalf of obviously the SIPL itself. That is it.

Prabhat Anantharaman: Now going forward now, how do we look at this coming back to and how much could we actually expect this to come down to?

Nitin Patel: Yesterday we got back that money from Government of Karnataka.

Prabhat Anantharaman: Sir, my question is on the entire outstanding. If I were to say the Rs.430 Crores outstanding that we have from SIPL, how would that move across in FY2018, what was the number look like?

Nitin Patel: Obviously the SIPL is in the process to get released at early as possible, but confidently I can say that at least Rs.200 Crores will be over just before October or November this year and remaining basically the company is exploring the various opportunities at SIPL level for obviously monetizing the one or two asset at appropriate value. If it happens, then definitely everything will be paid off because there is no need of additional incremental any basically fresh capital at SIPL as of now.

Prabhat Anantharaman: So, safe to assume is, in case, there is no such funding constraints for SIPL that you just mentioned, this happened this quarter with the Mysuru–Bellary, the outstanding amount can be half by the end of December quarter to around Rs.230 Crores of outstanding amount from SIPL to SEL?

Nitin Patel: Obviously.

Prabhat Anantharaman: Sir, my second question is, I joined in late. Did you give any capex guidance for FY2018?

Nitin Patel: Around Rs.50 Crores will be required for the procurement of the critical equipment for concrete road construction actually.

Prabhat Anantharaman: You did mention that you do not need to do any incremental capex for metro orders, but factoring metro order inflow this year, any kind of maintenance capex or any kind of incremental capex that we can look at over and above this Rs.50 Crores or does this Rs.50 Crores also include that?

Nitin Patel: This Rs.50 Crores is sufficient because additional will not be required because we already have the full-fledged started Delhi metro project because we had constructed almost 15 kilometers of the elevated structure and almost that consists of 14 stations also. So everything is available within the company.

Prabhat Anantharaman: Just one final question, you did mention that you are expecting a topline of Rs.3100 Crores to Rs.4000 Crores on 10% EBITDA margin, but if I just look at all the numbers that you have thrown Rs.4000 Crores of topline and 10% EBITDA margin of below Rs.420 Crores of EBITDA and if I assume the same kind of depreciation and finance cost, so basically what I am looking and I am looking at roughly around, after you paying even the 20% tax on the profits I am looking on pre-working capital cash flow of Rs.125 Crores and for this Rs.4000 Crores execution if I assume a historical networking capital requirement of 20% to 25% I am seeing an additional Rs.150 Crores to Rs.200 Crores being utilized in your working capital during the year. So somehow Sir, may be based on my assumptions the entire mathematics of you being able to reduce the debt level significantly in FY2018 does not quite flow through in terms of your cash requirements to achieve an execution of Rs.4000 Crores along with the capex that you mentioned and all that. Will you please throw some light on this Sir?

Nitin Patel: I would like to mention here that the Rs.3800 Crores of the topline guidance what we have mentioned and we are confident to achieve the same with 11% EBITDA on the same. So that is what we can give exactly. Rest other things as we have already discussed that how basically the money will flow because lot of EPC projects when we have put the additional incremental capital that will continue to come down and down every quarter. Second thing, there will not be any incremental requirement of the money for the hybrid annuity project because the working capital requirement is very less. Third thing, as we have mentioned the debt has basically gone up because of the onetime prepayment of the earlier mobilization advance to the tune of almost around Rs.270 Crores and that will continue to come back out of the, by put the seven hybrid annuity project the company is going to get at least around Rs.530 Crores of the mobilization advance just before the end of December this year. So all these will play a significant role in terms of the maintenance of the working capital and it will broadly bring down the debt level of around almost Rs.450 Crores what we have indicated actually. So this is largely possible, rest other things, numbers and everything you can calculate better what I understand.

Prabhat Anantharaman: Obviously Sir! I just wanted guidance. Thank you.

Moderator: Thank you. We have the next question from the line of Rahil Jasani from ICICI Securities. Please go ahead.

Rahil Jasani: Thanks for taking my question. The first one is that the sundry debtor level, which we are showing in the balance sheet has increased, so I just wanted to confirm is the increase mainly with respect to what you mentioned the DMRC and irrigation projects or can you throw some light on that?

Nitin Patel: There are four, five things, I can tell you the DMRC and better give increment what additional working capital has been pumped in, money has not flown because the work has been stopped by joint venture partner, so client has also taken a harsh step, but we have now completed the job. We are very closer to complete rest another two projects, so everything will flow in. Second thing, the EPC contract, because as you have seen the large execution has happened under the EPC contract of NHAI where the payment mechanism is on basis of the percentage completion, not on the item rate contract. Earlier in item-rate contract every month we were getting the payment what has been actually executed. Here largely incremental capital is required second thing. Third thing, obviously there are certain variation orders in three to four projects where the client has given intimation that we have already executed. So that has basically added the further requirement and the other thing we have mentioned that the HAM projects what we have started, the actual money has started flowing in Q1, but because the execution has started in the Q4 itself actually. If everything is getting normalized and what we understand that it will definitely bring it down and at certain point of time as and when the hybrid will take over, so definitely the requirement of working capital will continuously go down and down.

Rahil Jasani: Got it. Thanks for the explanation Sir and the second question is with respect to other income, so other income what I have seen is in Q4 it has increased, what is it attributable to mainly?

Nitin Patel: That is mainly because of the three projects of irrigation on behalf of GKC project what we are executing, the contract condition in a joint venture as well as in subcontract condition is very clear that if Sadbhav needs to step in under any circumstances whatever working capital additional has been infused company will be able to get cost fund from GKC, so that has been charged and it is being again paid by GKC itself. So almost that is that, so as and when the money will continue to come back, what we see, by the end of December 2016 it was 170, it has come down by March it is around Rs.140 Crores, Rs.145 Crores and again by June end we are expecting it will remain at around Rs.70 Crores so that money is continuously flowing in now and by Q2 everything will be zeroed down.

Rahil Jasani: So for next year, then only Rs.70 Crores approximately we will be able to see, but then it will be the other income, which will flow in, nothing from this?

Nitin Patel: Nothing from this.

Rahil Jasani: Got it. Thanks for the explanation Sir. That is it. Thank you.

Moderator: Thank You. We have the next question from the line of Jiten Doshi from IDFC Securities. Please go ahead.

Ashish: This is Ashish. Sir just a small question on the other income. We have reported other income of about Rs.22 Crores for the quarter, so what would that be Sir?

Nitin Patel: As I have mentioned, in irrigation projects what we have taken over from the GKC, the execution has been done by Sadbhav, but everything at the risk and cost of GKC, so whatever additional incremental working capital has been funded by the Sadbhav for completing that job the cost of that particular fund is being certified by Sadbhav and GKC representative jointly and it is being deducted from basically at the GKC account. So the way it has been worked out actually. So that is why the original contract will remain as it is, but whatever additional funding has been made because GKC has gone into the CDR, but here out of the client's receipts we are deducting all this payment and getting it from the GKC itself.

Jiten Doshi: But there is not a linear pattern to it, it comes may be once in a year or something like that is it?

Nitin Patel: Yes, it has started increasing, this is coming during last six quarters actually, now Q1 it will become half and most probably by end of Q2 it will be almost negligible.

Jiten Doshi: Right Sir! Just to clarify when we say that next year we are looking at about Rs.3800 Crores odd of revenue, so what you mean is that this revenue is going to be only from the orders, which you already have in hand or this is the overall summary revenue target that you would like to give?

Nitin Patel: No, this is only from the orders, which we are having and also that does not include the two of the hybrid annuity projects for which no contract agreement has yet been signed between SPV and Sadbhav Engineering.

Jiten Doshi: So, this Rs.3800 Crores is strictly from the current order book, the two HAMs and whatever else comes?

Nitin Patel: Correct, that will be the incremental.

Jiten Doshi: Will be incremental over and above this?

Nitin Patel: Exactly.

Jiten Doshi: Sure Sir! Thank you very much.

Moderator: Thank you. As there are no further questions we will now close the question queue. I would now like to hand the conference over to Mr. Nitin Patel, CFO and ED of Sadbhav Engineering Limited for closing comments. Please go ahead Sir!

Nitin Patel: Thank you very much to all the participants who have taken the interest in the conference call of the Q4 FY2017 and the year ended FY2017 numbers. Here basically out of the entire context what we are envisaging and I am requesting to all the learned analysts and as well as the investors and everybody to see and verify the actual impact of the GST coming in the way. What we understand that it requires lot of contractual arrangement along with the client because this is a very important and one time very big movement in the country itself and that is going to come just within obviously the next quarter itself. So everybody needs to understand even company level also we are also contemplating and how to come out smoothly all these issues as early as possible. So that will be what we would like to contemplate here. Rest other things I think we have discussed in very detail. So thank you very much to all for taking the time again.

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