"Sadbhav Engineering Limited & Sadbhav Infrastructure Project Limited Earnings Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sadbhav Engineering Limited and Sadbhav Infrastructure Project Limited Q2 and Half-Year FY'16 Earnings Conference Call hosted by Inga Capitals. As a reminder all participants' 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Patel of Sadbhav Group. Thank you and over to you Sir!

Nitin R. Patel: Good evening everybody. On behalf of Sadbhav Engineering Limited as well as Sadbhav Infrastructure Project Limited, I warmly welcome all the participants to the Earnings Call of Q2 FY'16 for Sadbhav Engineering Limited and H1 FY'16 of Sadbhav Infrastructure Project Limited. I am sure you must have seen the media release provided on both the stock exchanges. To start with, on the macro front actually in line of the business, there is a steady flow of new orders from NHAI and other agencies like Ministry of Surface Transport as well as some of the state governments. Though this flow had slowed down in the last quarter, we expect that many orders in the balance part of the fiscal year are lined up. Further hybrid annuity model which was expected to be bidded in Q2 has been postponed to Q3 now. SEL will continue to bid for EPC projects in transport, mining, and irrigation segment, and while SIPL shall bid for Road BOT as well as the Hybrid Annuity Projects. There are 28 projects 21,170 Crores, which is there on the website of NHAI for which financial bids are to be submitted before 31st of September. Out of these two projects worth 1860 Crores belong to BOT projects. Among the EPC projects, 8 projects worth 7442 Crores are in the state of Bihar and Uttar Pradesh. The rest are in the state of Chattisgarh, Jharkhand, Karnataka, Gujarat, and Maharashtra. There are approximately 9 projects valuing 9698 Crores for which RFQs have already been submitted and for which financial bids are expecting in the coming couple of months. All these projects basically are in the states of Himachal Pradesh and Punjab. In the mining sector, I would like to give further update. Basically some of the bidding activity is going on at the company level, so I think this is the appropriate time to discuss with everybody. We have basically started looking into the large size MDO projects for bidding and currently we are looking for two of the projects, one is Karnataka Power Corporation and one is Neyveli Lignite. The value size for KPCL is approximately 25,000 Crores and this is a 25-year mining contract. For Neyveli Lignite, the value size is close to 10,000 Crores. The KPCL bid is likely to be submitted in this particular Q3 itself and Neyveli we are expecting that the bid will be submitted in Q4 of the current fiscal. Obviously, we will continue to focus on the overburden work of the contract mining where we are having a very strong presence, but obviously we expect that in the coming period of time there will be a large as well as series of contracts coming under the MDO sector, so we will continue to focus this sector in a positive way. Now, in terms of irrigation, we have not seen any new orders in irrigation sector, but obviously some projects are there, which are lined by the Government of Gujarat, Government of Telangana as well as the Karnataka State Government. Once these projects come for bidding, obviously we will be looking for these projects for bidding. Now, in a short way, what we would like to continue and we would like to put before this forum is that obviously in road sector we are very bullish and this will continue to give the order book momentum for even the second half of the current fiscal. MDO, as I have mentioned, depending upon the success of the bid, obviously this will be a further booster in the mining segment apart from the new mining contracts of the Coal India Subsidiaries as well as other contracts, which will continue to be bidded out by the company. Coming back to our business, the order book of the company as on 30th September stands at 9306 Crores. The segment wise or break-up of order book is already provided in the media release. As discussed in the last couple of calls, the BOT projects shall continue to drive the execution during FY'16 and we have seen that in this Q2 also that BOT has basically given a good momentum in terms of the execution of the projects. Out of the balance order book of 990 Crores of the BOT, we are expecting that the approximate 800 Crores of the work will be executed in the current fiscal itself. Obviously, this will give further upside of the EBITDA margin, provided the commodity prices will continue to remain at this level. Again, I would like to further reestablish that we are on a track to achieve the highest turnover in the history of Sadbhav by the end of this fiscal year consider the first half numbers. Now, let me start with the summary of this quarter financials. Income from operations for the quarter has increased by 25.44% to 745.9 Crores as against 594.6 Crores of the last year. EBITDA for the quarter has increased by 35.49% to 80.7 Crores as against 59.6 Crores of the last year. Profit after tax for the quarter stood at 26.2 Crores as against 10.1 Crores of the last year. The construction expenses as a percentage of total revenue from operations have reduced to 80.77% as compared to 81.2% in Q2 of FY'15, and primarily this is due to increasing contribution of BOT projects from 50.39% of the total income from operations to 61.81% in this quarter. Also the EBITDA margin for the quarter stood at 10.82% as against 10.02% in the same period of the previous year, and the EBITDA margin mainly increased due to reduction in the construction expenses which is due to softening of commodity prices and operating leverage from other expenses. We expect the EBITDA margin to increase from the current level in FY'16 because of the high contribution of the BOT projects for the Q2 of the current fiscal. Profit after tax during the quarter was impacted because of one-time write-off of 11.78 Crores which SEL was supposed to receive over the sale of assets. Basically, the transaction happened in the year 2008-2009, but the matter was pending in the arbitration level and which got settled in the Q2 of FY'16, so that is why company has basically decided to take one-time write off of 11.78 Crores. We further believe that during the second half of the fiscal year, we should witness further lowering of the finance cost mainly due to the following reasons: One is obviously the reduction in the interest rate by the Consortium of Banks in SEL. We expect the SEL's credit rating is likely to improve further basically, which is currently A+. Further, the receipt of interest-free mobilization advance of 270 Crores is lined up actually for the five projects, so that money is not yet received, but we are expecting that by the end of this month or maximum by the end of December this entire money will come into the balance sheet of the company. Post the refinancing of various SPVs in SIPL as well as no equity requirement for projects, we believe SIPL has started its journey to march in the cash profit zone hence no support shall be required from SEL to SIPL henceforth actually for the current set of the projects of SIPL. On the execution of the transport business, top 5 projects for execution during Q2 of FY'16 have been disclosed in the media release. As discussed during our last conference call also, we believe we are on track to complete the ongoing BOT projects well before schedule, and assuming the above we believe that company shall receive early completion bonus in financial year FY'16 and more so in FY'17. From Q3 onwards, new orders won by the company over the last six months will start to contribute to the revenue also. Out of the five projects, we have already started execution in three, one project yesterday itself Honourable Prime Minister has opened this Eastern Peripheral Expressway project. However, on the front level we have already started the work. In the mining business, Amlohri mine contributed around 49 Crores of the revenue in Q2 of FY'16. We expect the mining contribution to increase a little bit because of the execution, currently it is slow in a couple of mines, as well as the monsoon quarter normally it remains a little bit slower actually, so Q3 and Q4 we will see a little bit increase in the mining turnover also. Irrigation contribution obviously was low because of purely the seasonality effect. Changes in the order book during Q2 of FY'16, company has worn two EPC road projects worth 1548 Crores and till now in this fiscal year the company has won total five EPC road projects worth Rs.2684 Crores and we continue to maintain the full-year target obviously minimum of 5000 Crores for the new orders. Also, we continue to remain confident of scaling new highs in both construction and BOT business. We expect that growth in construction business will obviously lead largely by road sector for the second half of the year. This is from the construction business side. Now, I would like to request Mr. Varun Mehta, he is already there on the call with me who is the CFO of SIPL and who will take you through the BOT business of SIPL. Varun bhai, please take over.

Varun Mehta: Thank you very much Nitin bhai. First of all, on behalf of the promoter and the management of SIPL, I extend a very warm welcome to all the participants to this maiden conference call of Sadbhav Infrastructure Project Limited for the half year ended September 2015. We have begun a new chapter of our company and we are excited to move along with the support of the investors and the analyst fraternity. As many of you might be aware, we successfully closed our initial public offering in the Indian Capital Market in September 2015. Many of you may recall, we have had overwhelming response from all the categories of investors in a very tough market scenario. We take this opportunity to sincerely thank all the investors who have showed the confidence and have participated in the IPO. Also, we would like to thank the analyst community who have taken the great efforts and pain to understand the company and its SPVs, and to sort of present the case to their clients. Now, coming back to the business of SIPL, as many of you may be aware about the SIPL business, because it is part of the Sadbhav Group and it has been discussed several times in the con-call of SEL. However, for the benefits of those who are not familiar with the SIPL business, I would like to provide a brief introduction of SIPL. SIPL was incorporated in 2007 by Sadbhav Engineering Limited to operate the road BOT assets. Currently, SIPL has a portfolio of 11 roads and highways BOT assets with a total project of 10,200 Crores. One project namely Mumbai-Nasik, where we have entered into an agreement for stake sale and it is not included in the list of 11 projects. Also another project namely Mysore-Bellary Highway Private Limited, where SEL currently holds 74% in GPC projects currently hold 26%. This is under the process of acquisition by SIPL. It is also not included in the list of 11 projects and we expect this stake sale and the acquisition to complete over the next six to nine months. The average residual life of the entire portfolio comes to approximately 18 years which is one of the longest in the industry. SIPL is qualified for NHAI BOT projects worth 2650 Crores. Our company has taken the advantage of being present in the entire value chain for all the activities and because of that we believe our ONM cost is also lowest in the industry, which is also visible from the EBITDA margin. Because of the presence in the entire value chain, we are also able to mitigate any challenges on the ground level in relation to the BOT projects. Also particularly, toll-level income is the main source of income for the company so we have installed advance technologies to monitor control and audit the tolling operations on a concurrent basis. Looking at the current industry scenario, more particularly in relation to the fresh bids, we believe that SIPL is well placed to capitalize this opportunity as the equity requirement for the current under-construction portfolio is almost nil. We are currently sort of doing due diligence for the couple of stuck projects also because we believe there are many projects which are available right now in the market and which are stuck probably due to land acquisition or because of the lack of equity or because of the lack of finances available. Right now, we are sort of doing DD for a couple of projects and we expect probably to have some movement in the next coming months and probably we will intimate to the market at an appropriate time. As of now on the employee base, we have current employee base of roughly around 1400 employees on the roll of SIPL, which includes from the bidding till execution in the finance team and from the operation and the tolling team also. Coming to the financial numbers, SPV wise, toll-level numbers for Q2 FY'16 have already been shared with the stock exchanges. The consolidated toll income from operation during H1 FY'16 stood at 273.6 Crores while the cash EBITDA stood at 236.3 Crores translating into an EBITDA margin of 86.4%. Losses during the quarter stood at 167 Crores and these losses were majorly due to the noncash item of depreciation and provision for major maintenance. The total debt on the books of the company is around 6700 Crores as on 30th of September, but just to give a break-up of the debt, the debt in relation to the operational project and in relation to the SIPL standalone debt for which the servicing needs to be done from the operational cash flow it stood at roughly around 4300 Crores as on September 30th. The affect debt during H1 FY'16 stood as follows: In Ahmedabad ring road, that is ARRIL, the PCUs have grown by 5.2% during H1 FY'16 and with the growth in the commercial traffic at around 10%, we have seen some amount of de-growth particularly in passenger cars and this is mainly due to the impact of the service road on the project. Aurangabad Jalna project, Y-O-Y comparison is not possible in this project because the tolling was stopped on the cars and the Maharashtra State Transport versus from 1st, but to do an apple-to-apple comparison, for the LCV and MAV category, it has grown roughly around 24.8% during H1 FY'16 and this tremendous growth in this category is particularly due to the construction of the first phase of DMIC which is going on at the Sinnar region which is particularly located in between this project. Just to give an update on this, we have applied for a final COD in this project and the process is currently going on, and the extension of the concession period also we have filed with the PWD. The application which we have filed with the PWD is for the extension of 8 years of the concession from the original concession period. In case of Bijapur - Hungund, the traffic has grown by 6.9% on a Y-o-Y basis. Hyderabad - Yadgiri, traffic has grown by around 11.4% on a Y-o-Y basis. Maharashtra border check post, the traffic growth for the nine check posts which were also operational during H1 of FY'15 because right now we are collecting tolling from 13, because four check posts were added from 5th of August, so the apple-to-apple comparison says basically from these nine check posts the traffic growth is around 27% and obviously this tremendous growth also includes the increase in the toll efficiency because there were some leakages at the time of the start of the check posts in some of the check posts. Rohtak - Panipet, traffic in this project is de-grown by around 2.5% and obviously we are sort of dealing with some of the issues on the side also. I think they have installed the height barrier in the month of September 2015 on the district roads near the toll plaza so we believe post this installation the traffic has definitely picked up in the month of October also, and we continue to work in the direction towards the detection of the leakages which are there on the project currently. To give an update on the other BOT projects, in relation to the stake of MNEL to GIPL, we are in discussion with GIPL to receive the issue proceeds. We expect the issue proceeds of 90 Crores shall be received before the end of this fiscal year. We have already completed the acquisition of stake in DPTL that is Dhule Palesner from HCC Group and John Laing Group. Post the completion of acquisition, SIPL shall hold 100% stake in the SPV and the work on the developed section is expected to be complete by the end of the current month. This will add to the consolidated revenue for approximately four-and-a-half months during this fiscal year. In relation to Shreenathji-Udaipur that is SUTPL, we have already applied for COD in the month of September, 2015. Site visit of NHAI and the independent consultant officials is already completed and we expect to start the toll collection very soon. This will also add to the consolidated revenue during the second half of the fiscal year. That is all from my side, now we can please start Q&A session.

Moderator: Thank you very much. We will now begin the Q&A session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Devang Patel IL&FS. Please go ahead.

Devang Patel: Firstly, a question on the irrigation side, you mentioned in your remarks this was on the account of seasonality, yet it has fallen from 200 Crores to about 30 Crores. The JV projects that we were doing, are those complete and therefore the run rate of Q1 will not be achieved, some comments on the irrigation side?

Nitin R. Patel: Basically, in monsoon, what happened is in majority, MP has received a large amount of rain actually because major part of the contract is being executed in MP itself. So, this entire quarter we could not achieve any of the turnover there. Still, I think the GKC project work what we have taken over basically in MP and Gujarat still around 300 to 350 Crores of work is balance. We are expecting to complete it before March of 2016. I think in Q3 and Q4 again it will recoup.

Devang Patel: How does the irrigation order book spread about across different states? Is there any project in Telangana and AP which you would look to restart now with the recent orders that they have passed?

Nitin R. Patel: In Telangana, we do not have any of the projects. In the AP, there are hardly three or four small contracts, now I think the balance work I think is below 30 Crores remaining there. This will be completed again in this fiscal itself. Other than these, we do not have any other projects in Telangana and AP. Obviously, Telangana has started awarding new projects, but we could not get a project there as of now. Still other projects are coming up. Even in Karnataka also, three or four projects are lined up by the government. Once the bid officially comes out then obviously we will be in a position to share the details of the same.

Devang Patel: On the arbitration award that we booked an expense this quarter, is any further gain or loss expected or this is the end of the matter now.

Nitin R. Patel: This is completely over actually. In fact, this was over in the year 2008-2009 itself, but only some small part of the asset which we have already sold to Ocean Bright Corporation, because of this arbitration process, we have finally settled that this money will not be receivable by the company out of the sale proceeds of the group, that is why we have taken it on-time actually and now this is completely over.

Devang Patel: Was this related to our mining?

Nitin R. Patel: This is for mining work, you might be aware that we have taken some of the mines in Mozambique that is in the year 2007 or 2008, but we have closed everything and we sold out all the mining and even all these investments we have taken out in the year 2007-2008 itself. Only some of the equipment which we have sold and that was basically under dispute, now it is settled and closed.

Devang Patel: On the tax rate if you can give what sort of number to expect for the full year, again we are booking about 20% this quarter, we are taking benefit from the EPC orders, but what about mining and irrigation, we would not be having any tax shelter, so what is the tax guidance for the full year?

Nitin R. Patel: Practically in all these EPC projects as well as the irrigation projects, we are eligible to get the 80IA exemption and we are getting actually. Considering that, what we can say that as guidance we can consider between 22% and 24% for the current fiscal actually, and even for FY'17, because I believe that the majority part of the revenue will come from the EPC in FY'17.

Devang Patel: For mining also are we getting 80IA benefit?

Nitin R. Patel: No. For mining we are not getting that benefit.

Devang Patel: Lastly on the mining, you mentioned you will go for larger projects, is there any proposal to tie up with another partner to take lesser risk on the balance sheet?

Nitin R. Patel: To be very frank, the projects which are coming for the bidding, as I have mentioned the KPCL project, according to me it is a lesser risk project because the main risk of the stripping ratio is not there. The rate of the coal is to be worked out based on the actual stripping done each and every year. Second thing, for the projects which we are bidding now are the open mines, and earlier also the mining activity was going on. So there is no need for over-burden as well as a lot of R&R is there which may take two to three-year time period, where we need to incur it on a continuous basis Capex without getting the revenue. Currently we are looking at projects where the revenue should start basically in the year one itself. So, there should be not any kind of requirement of long Capex.

Devang Patel: Did you mean that we will be paid as per the over-burden that we remove?

Nitin R. Patel: For Sadbhav Engineering per se, Sadbhav will get the contracts on the EPC basis only because there will be SPV structure, which will be currently 100% owned by Sadbhav Engineering, but SPV will give the contract for this over-burden as well as the coal removal to Sadbhav Engineering and remaining work will be taken out by the SPV itself.

Devang Patel: How many bidders do we expect or how much competition we are expecting for this kind of tender?

Nitin R. Patel: Here, not much bidders are there actually. In these projects, currently we are seeing three to four people who are coming for the pre-bid meeting.

Moderator: Thank you. The next question is from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: What would be our equity requirement? I remember that around 75 Crores were left in Shreenathji-Udaipur in the last quarter and Dhule Palesner acquisition money. Can you throw some light on the equity requirement?

Varun Mehta: As on date we do not have any equity requirement because we have fully funded the Shreenathji-Udaipur project. Also in relation to the Dhule Palesner acquisition, we have paid the acquisition money of 143 Crores to HCC Group. So the only pending equity requirement is for the acquisition of Mysore-Bellary and it would be to the extent of around 79 Crores. We are supposed to acquire this project from SEL, which currently owns 74% and from GKC which currently owns 26%, and for this we are supposed to pay around 79 Crores.

Nitin Arora: What would be our portfolio cost, average borrowing cost at the standalone level and what will be our portfolio cost at the current level?

Varun Mehta: On the SIPL standalone, borrowing cost will be somewhere around 10.6% and on the consolidated SPV wise on an operational SPV it is somewhere around 11.3% as of now, and obviously right now we are in the process of doing refinancing for a few of the SPVs, so that cost will come down by roughly 130 to 140 basis points. On the under-construction part, we are paying right now around 11.6%.

Nitin Arora: SEL sir?

Nitin R. Patel: For SEL, we are paying around 11.5% and again, the SEL is in a process of completely restructuring its current consortium for which we have already gotten the sanction from the new set of lenders as well as the existing who are going to remain in the consortium, that is around close to 10.3%, which is now to be paid basically in the second half of the current fiscal.

Nitin Arora: Okay, 80 basis point reduction we have seen in the standalone level.

Nitin R. Patel: Yes, that is on a standalone level.

Nitin Arora: Sir just one important aspect of Maharashtra border check post, now on the notes of the accounts when it says about the service tax against our toll rate and we have net off now that service tax, historically also we have seen that the road developers have been asked to pay the service tax, but then finally it gets away and road developer does not have to pay that service tax part, so how we are going to tackle this issue and how much time do you think it is going to take for us to get rid of paying the service tax from our toll rate?

Nitin R. Patel: Here actually what has happened is at the time of submission of the bid, because in this particular project we are providing other services including weighing of the vehicles as well as data entry as well as a lot of networking of other facilities at the check post level. All these are being categorized as services, which was not taxable at the time of submission of the bid. From 12th of July 2012, it has come under the negative list actually and now it is chargeable to service tax. As of now, we are paying the service tax, but the cost is on the Government of Maharashtra and now the Government of Maharashtra including the Maharashtra State MSRDC as well as the Transport Department they have approved that this cost is to be covered from the users, truckers, and the GR is being issued by the government with a couple of weeks. So, before end of this month we are expecting that the GR will be in place and all the tax needs to be collected from the users of the every check post.

Nitin Arora: In terms of the project which is Aurangabad - Jalna, can you give us a sense in terms of receiving money, because on a quarterly basis we have come down by about 2.5 to 3 Crores that is largely pertaining to our exemption to cars and buses. What stage are we in in terms of getting that money from the Maharashtra Government, on an accounting basis, will you be accounting for compensation as well in your revenue or will that get excluded and now we will see the numbers going in that range of 6 to 7 Crores per quarter?

Nitin R. Patel: Two things, today I was on the call from Aurangabad itself, today we had a meeting with the PWD here in Aurangabad, they have already moved our proposal for payment of the compensation to the Government of Maharashtra and they have confirmed that in the winter session of the assembly, it is starting from first week of December, the government will finally take the call for the payment for these dues. It is what they have confirmed to us today. Obviously, the auditors have suggested that since the government has very clearly mentioned in various correspondences that this money will be compensated by the government to the concessionaire, so we are of the view that this revenue is to be recognized on a regular basis as if it has been collected by the government.

Nitin Arora: So, ideally from the next quarter we will come back to about 9 Crores kind of quarterly number in terms of accrual basis.

Moderator: Thank you. The next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: First of all congratulations on the good set of numbers. We have seen a very strong execution in this quarter and how do you see this panning out maybe in the next half of the fiscal year, especially on the EPC projects which we have won recently, how has been the preparedness from NHAI in terms of the land acquisition and the other aspects of clearances before awarding the projects?

Nitin R. Patel: In our case, we have won five projects in the current year. Out of five, four projects are in a take-off stage now. We have already almost completed the mobilization and we are in the position to start. So in Q3, we will see some little revenue, but Q4 onwards we are likely to get a strong revenue from all these four projects. The fifth project, I think it will take another couple of months to take-off, one bypass issue is under consideration by NHAI. So, once it is through it will be taken over. Apart from that, BOT projects, as I have mentioned in this call itself, there are around 990 Crores balance and according to the construction schedule and how the work is going on, we are expecting that at least 800 Crores of the BOT will be completed before end of this fiscal. Over and above that, mining as well as the irrigation work which will come. So, I think the momentum is reasonably well. Obviously, it depends on which part of the work will be completed during which quarter, but we are of the view that in the current year there will be a strong upside and clear visibility so far as the top line is concerned.

Charanjit Singh: If we look at the first half, we have done pretty well on the order inflow front and our guidance is for 5000 Crores of inflows, on the BOT front how the pipeline is and what is your feedback on the hybrid annuity model, how you are seeing those orders panning out?

Nitin R. Patel: Two things, in the BOT as what Mr. Varun bhai told, we are looking at a couple of projects, which are the stuck projects where a sizable EPC is balance. I think once it is through, we will get some good amount of the EPC business at Sadbhav Engineering level also and obviously this will add further visibility in SIPL level, so this needs to be implemented over two to two-and-a-half years. Apart from that, hybrid annuity, we are looking as of now in a true way. Absolutely in some of the projects if we can play the balance sheet well, it can be taken up with very minimal requirement of the equity. What we understand is the hybrid annuity is the project, where hardly equity will be required during the construction period only and then after that money will come back. During that period whatever IRR of the investment is there, that we need to calculate and post that there is no need to commit the equity for a very longer period of the construction. This is something different and obviously it will give a strong boost up for the EPC business. According to us, we are feeling that those who are having a very strong execution capability, obviously they will be better off for taking up the hybrid project because obviously the lender will see that only the challenge what we are seeing is the construction challenge in hybrid now. Rest of the things, NHAI has taken on their heads.

Charanjit Singh: Okay. By this September end, we have seen that the working capital has improved. How do you see the working capital cycle panning out in the second half? Will it remain at the similar levels or we will see any kind of further reduction?

Nitin R. Patel: As we have mentioned, SIPL is also now coming into the clearcut cash generation mode. Further there is no equity requirement in SIPL for the current portfolio. All the projects are fully funded. We are of the view that obviously whatever surplus is there that will be either utilized by SIPL, including the 90 Crores what we were supposed to get from the stake sale of Mumbai-Nasi, everything will come back to Sadbhav Engineering, so that will further reduce the Sadbhav Engineering's debt position as well as the 270 Crores interest-free mobilization advance which is yet to come in. I think by the end of this month or maximum by December end, everything will be in place and this will further help reduce the cost of the fund. We are expecting that the finance cost for both companies will continue to reduce quarter to quarter.

Charanjit Singh: Okay, thanks a lot for taking my questions. All the best for the future quarter.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please restrict your questions to two per participants, thank you. We have the next question from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: I have one small question, can you give us the break-up of the interest that you earned from subsidiaries and how much is the loan pending from these subsidiaries for SEL?

Varun Mehta: Total loan pending as of 30th of September is around 540 Crores that is the loan by SEL to SIPL. There is no loan outstanding between SEL and the SPVs, there is only loan outstanding between SEL and SIPL.

Nitin Bhasin: Okay, and what is the interest that you booked as an income in standalone numbers in this quarter?

Varun Mehta: In this quarter, we have booked income of roughly around 16.5 Crores.

Nitin Bhasin: Okay. Have you earned it as cash or it is still pending? What is the accrued interest that you have for the last quarter and this quarter put together?

Varun Mehta: Out of the 16.5 Crores, SIPL has already paid 11 Crores of interest, only 5.5 Crores is lying as an accrual.

Nitin Bhasin: On the MMR, the major maintenance roads, what was the total amount of MMR provided and what roads were these in this quarter?

Varun Mehta: We provide for MMR in all the SPVs because that is for the purpose of the major maintenance which will happen after sixth or seventh year from the date of the COD. It has been provided in all the operational SPVs particularly. The total MMR for the first half, the provision what we have done is around 41 Crores and the figure in the last fiscal was around 78 Crores. I think the number will be almost same or it will increase because of the addition of a couple of assets.

Nitin Bhasin: Okay and the last one from me is that, you are talking about investing in MDOs and stuck projects, so what sort of size of these projects could be? What sort of equity need for an MDO and what sort of equity need for stuck projects could arise, typical size of these jobs and you will do the MDO in SIPL or you will do the MDO in SEL?

Nitin Patel: MDO we will do in SEL itself because it is a pure mining business. SIPL focus is only to see the road asset business. The size and magnitude is large in MDO project and obviously it is requirement of the project itself, because the client has very clearly specified that the contract will be awarded to the special purpose vehicle and it is a longer term contract. SPV should have only focused activity of carrying out this MDO. Out of this, SPV will give the EPC contract of over-burden removal and coal extraction to Sadbhav Engineering and rest of the things like coal washing and transportation can be taken over by SPV itself or it can give the contract to third-party agency also.

Nitin Bhasin: Typically what would be the size of this, will it be a 200 Crores equity requirement or 100 Crores equity requirement or 500 Crores equity requirement?

Nitin Patel: As I mentioned in KPCL, the project size requires total Capex during the first two to two-and-a-half years, it is around close to 680 Crores and that will be funded in the debt-equity ratio as agreed with the lenders depending upon the payback period. This will not be IRR kind of project. It will be payback because the life of the equipment will be ranging between 7 and 9 years, then after we have to work out. Currently, Sadbhav Engineering normally at a standalone basis in some of the projects we are getting 100% of money through the lenders also, or maximum it is 90:10 kind of funding.

Nitin Bhasin: Okay, and the same thing for stuck projects. What size of the stuck projects will these be, what kind of an equity requirement for these be, how is the banking sector behaving in terms of funding for the stuck projects, is it like 80:20 or 90:10 or 60:40, just help us understand the stuck projects?

Nitin Patel: This is a completely different ballgame as far as the project negotiation because this is purely based on the negotiation. Frankly speaking, as of now we are negotiating with a set of lenders that whatever balance equity will be required for these projects, both projects put together is around close to 2000 Crores. In these, the outstanding EPC work is around close to 1400 to 1500 Crores, both put together. Here what we are asking and we are negotiating with the lenders is that whatever equity we negotiate finally that will be brought in by the company at the last leg of the funding. Upfront, company will not bring anything because obviously it is bailing out of the lenders as well as earlier developer, so that is why we are getting some positive support from the authority also to change the complete refinancing mix also and also to change the complete financing pattern considering the life of the concession period.

Nitin Bhasin: Okay, and the last one, what is your yearend target debt for SIPL standalone and SEL standalone?

Nitin Patel: For SEL, I am of the view that the way the Mumbai - Nasik as well as some of the money which is lying at the debt service reserve account, we are in the process of taking out money from the SPV because once post refinancing complete debt service coverage ratio is getting changed and in the new terms we are negotiating with the lenders this money can be taken back by SIPL and pay off to SEL, so we are expecting that SIPL will pay almost around 200 to 250 Crores by the end of March to SEL further. Also SEL will again be able to reduce the debt by at least 200 Crores, so we are expecting that it should come down to at least minimum 450 to 500 Crores by the end of the year from the current level.

Nitin Bhasin: Okay, any idea what is the total cash in this thing what you have mentioned, the DSR account overall from today?

Varun Mehta: The total balance lying in the debt service reserve account as of now is around 200 Crores.

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

Amit Sinha: Hi Sir, thanks for the opportunity. My first question is on this MDO project which you are talking about. I missed some part of it, so can you please just explain what is the arrangement and how would you go about funding that?

Nitin Patel: The client has asked to create a special purpose vehicle post winning because the contract will be signed between SPV and the client. SPV will be 100% controlled by Sadbhav Engineering. The business is the SPV will be completely involved in opening of the entire mine, mine operations, and also transportation and dumping into coal washing yard for washing of the coal as well as the transportation of the washed coal to the railway yard. So, all these activities are involved in this. These are the primary obligation of the SPV. Carrying out the pure play mining operation will be given to Sadbhav Engineering. The rest of the things, Sadbhav may take or it may be given to third-party agency depending upon what margins we can get, so this will allow us to utilize the resources of the other agencies also for the project. The KPCL size is that every year they require 5 million tonnes of coal and the shipping ratio is almost close to 7.5, almost around 3.5 Crores to 3.75 Crores cubic meter of the over-burden removal plus 50 lakh metric tonnes of the coal. This activity needs to be done. On an average if we see how the pricing and everything has been worked out, according to me almost on a yearly basis it is between 850 and 1000 Crores size of mining activity to be carried out. Escalation will be added on a Y-o-Y basis based on the actual increase in the prices.

Amit Sinha: Okay, so basically 850 to 1000 Crores of mining activity has to be done, out of which our job will be around 60% to 70%.

Nitin Patel: Currently, we give only the mining activity to Sadbhav. If everything goes to Sadbhav then obviously everything will come to Sadbhav.

Amit Sinha: Right, the equity part which you said will be coming in at the later stage.

Nitin Patel: It will be over a period of time. The equipment deployment status is also over a period of time.

Amit Sinha: Okay, on the SEL side can you give the total Capex requirement for this year and the next year?

Nitin Patel: Total for FY'16, I think it will be hardly around 40 to 45 Crores and for FY'17 obviously it is depending upon which projects we are getting, so depending on the same it will be worked. Initially what we are thinking is, even if this MDO comes, lot of equipment of SEL's currently ongoing mining projects can be utilized there, so couple of years can be taken care of by this. Here, we are using the equipment for four to five years and the life of the equipment is seven to eight years, so balance life can be utilized in these projects. This will be an added advantage of usage of the lifecycle of the equipment. But how the projects are coming and also how other new contracts are coming, accordingly we will be able to term in for FY'17.

Amit Sinha: Okay, my next question is on your major maintenance provision which you have made and for the first half you have made around 41 Crores of provision, this is for which all projects?

Varun Mehta: We have to provide the major maintenance provision for all the operating SPVs.

Amit Sinha: Okay, and what will be the per kilometer on an average cost for major maintenance roughly?

Varun Mehta: As a ballpark number, assuming a four-lane stretch, it is somewhere around 70 lakhs per kilometer.

Amit Sinha: Okay, and lastly now since all the five projects which we won this year, four of it has been now in the execution phase, what will be the run rate? I understand that in the first six months or first nine months the run rate will not be that high, but what is the total execution cycle for these projects? Is it two-and-a-half years or are we targeting even before that?

Nitin Patel: Contract duration maximum is two-and-a-half years, some of the projects are only two-year contracts. Normally, what will happen is in the first quarter it will not be much, but here these projects also have a large structural work also, because if you see the eastern periphery, the length of both projects is hardly 44 km and the total cost is 1560 Crores. Per kilometer cost is very high, and very high structural work is there plus purely greenfield area is there, so it is a mass embankment work. Volume will come very fast in these kinds of projects. Thirdly, what I would like to mention is that now the construction sequence in all the EPC is percentage completion payment. It is not like item rate payment, which was there in earlier stage. Obviously, now at a company level we are seeing that the better we execute the project and complete almost all the items simultaneously, this will give the leverage of lesser working capital requirement for the project and we will continue to get the payment from the client on a faster pace.

Amit Sinha: Okay, and one related question on the EPC projects which we have won. In the past also you have maintained that you will be able to maintain a similar kind of margin in the EPC project as well. Am I right on that assessment?

Nitin Patel: Yes, in EPC we are confident that we will be able to maintain that margin level, so we do not have any challenge there actually.

Amit Sinha: And that will be in double digits?

Nitin Patel: Obviously. In roads, normally we have operated almost between 11% and 12%. Irrigation is bringing down the margin because we are operating at around 7% to 8% level. Mining, this MDO particularly when it comes we will have to see finally at what rate it is coming, so depending upon the final rate we will be able to give the input, because this is a sizeable project. So, every year it will have different impact on the overall margin levels of the company also.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Good afternoon Nitin bhai and Varun bhai. First question is on the standalone business. I just thought I will get a sense from you that considering where we are and the fact that you are saying that EPC business will not contribute as much on the road side in the Q3, is there a possibility of revenues declining on a Y-o-Y basis?

Nitin Patel: Y-o-Y decline will not be there actually because as I have mentioned almost close to 1000 Crores of BOT is there and the project execution is going on in a full swing. Almost we are expecting that this will continue the momentum, and by the time the new projects will also be taking off. During the second quarter, irrigation has not supported much, so irrigation turnover will be a little bit higher as compared to the second quarter, and obviously in mining we are also likely to see improved turnover as compared to the Q2. All these put together, there will not be a decline. Obviously, depending upon how these four projects are taken up and how much quantum is coming and the growth percentage we have to observe, then obviously we will come at an appropriate time.

Aditya Mongia: Sure, so if we have more of mining and more of irrigation, less of BOT, mining should be broadly similar, it is what you are saying?

Nitin Patel: According to me, mining should go up because in Q3 and Q4 we will have business from the current ongoing BOT projects also, where the margin level is higher because the commodity prices are down.

Aditya Mongia: Right, the other question was more on SIPL. I wanted to understand the movement from FY'15 and H1 FY'16, if I see the financials that we have shared, it appears that cash EBITDA has risen significantly, let us say cash EBITDA margin would have risen significantly in H1 versus FY'15. What are reasons why this thing is happening?

Varun Mehta: The first reason is probably the total income from operations has definitely increased. If you see the percentage of the toll revenue in six months versus the FY'15, the percentage was very high in the first half of FY'16 and the toll revenue business EBITDA margin is somewhere around 85% to 86% at the cash EBITDA level, so the first reason is probably that. The second reason is definitely the revenue has increased significantly in the first half of FY'16, the revenue has increased by roughly around 17% to 18% on a Y-o-Y basis and my first part of my operating expenses have increased only by 5% to 6% on a Y-o-Y, apple-to-apple comparison, so I think the second reason is also because of that.

Nitin Patel: The third reason, just to add what Varun bhai has told, if you see particularly the Maharashtra border check post, the check posts which we have completed last year could not start the revenue because the government had not issued the GR, they have issued a little bit lately. Earlier, the finance cost had been charged to the P&L earlier time and now we are in the revenue stream, because from 5th of August we have started the revenue from four of the chest posts. This has also started covering that finance cost also plus the toll rate particularly in border check post has increased by almost around 21% to 22% from 1st of April, so this has also further added the cash margin level.

Aditya Mongia: It appears as if from Q2 onwards, let us say if it was simple cash EBITDA minus interest cost calculation, we are actually generating cash now, right?

Varun Mehta: Yes.

Aditya Mongia: So, incrementally that trend, let us say, sustains, you will just have to account for the debt repayment and net-net we may start earning cash from FY'17 onwards, is that the right way to look at things?

Varun Mehta: Yes, I think incrementally from Q3 onwards a couple of things will happen. First thing obviously after the refinancing of the five of the SPVs which we are doing right now, which we expect to complete couple of SPV refinancing in this quarter itself and the rest probably in Q4, I think because of that definitely our finance cost will reduce drastically from whatever levels it is right now, because we have gotten the sanctions around 130 to 140 basis points lower than the current level, so that will sort of reduce the finance cost. Second thing on the debt repayment part, earlier we used to have a shorter term of debt repayment because at the time of the financial closure we do not get the best of the financing terms, but right now since the project is operational and it has a better quality and better rate profile, right now the repayment pattern of all these SPVs has increased from whatever levels it was as compared to the original concessional period. Right now, after the refinancing we will definitely have a very low repayment at least for the next five to six years because of the refinancing. In case of the refinancing, we have structure in such a way that majority of the repayment will come in the last five to six years of the concession period.

Aditya Mongia: Right, so basically from FY'17 onwards good cash flow is coming in, that is the net message you are trying to suggest.

Varun Mehta: I think from second half onwards it will start and obviously from FY'17 the chunk of the cash flow we will get.

Aditya Mongia: Sure. Any specific numbers in terms of kilometers that you are targeting of winning BOT orders in the next one year or so, given the amount of cash which you have?

Varun Mehta: Right from 2006 till 2015, we have been looking for projects at a time when the competition is less and the projects which will satisfy our bidding parameters and particularly the equity IRR. So assuming if that satisfies all the bidding parameters of Sadbhav, I think we are looking for somewhere around 200 km per year of new orders, probably either by way fresh bidding from NHAI or from any other state agencies or by way of acquisition of the stuck projects.

Aditya Mongia: That is good, thanks a lot. Those were the questions from my side and all the best.

Moderator: Thank you. Next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: Just one question. When we book revenue in SEL, if you can help us what is the percentage completion after we start booking the revenue? Was it like 15% or 20%.

Nitin Patel: No, actually in our case it is like, as per the actual certification by the independent consultant for all these EPC projects or for the BOT projects when it is being certified by the lenders' engineer. This is the criteria for booking the revenue.

Bhavin Vithlani: Okay. My second question is I just missed the part on the struck projects, if you could elaborate further on the two projects that you are looking at?

Nitin Patel: Basically, these two projects got stuck because of various reasons and probably right now these projects are like almost 20% to 25% completed, and there is a chunk of EPC work which is pending in that particular project. Right now, obviously the project size of these projects is around 2000 odd Crores with an EPC of around 1300 to 1400 odd Crores. Right now, the current stage is we are doing the due diligence of these projects and obviously depending on the negotiation with the lenders and with their client, and also particularly with the existing concessionaire, the next steps will be taken.

Bhavin Vithlani: Okay fine, that answers my question. Thank you so much and wish you all the best.

Moderator: Thank you. A reminder to all participants, if you like to ask a question please press "*" and "1". Our next question is from the line of Bharanidhar Vijayakumar from Spark Capital. Please go ahead.

B. Vijayakumar: Good afternoon Nitin bhai and Varun bhai. Sir, my first question is on the NHAI project awards. Obviously NHAI awarded close to 3000 km last year and about 5000 is the target for this year, but what we have been seeing is bid opening dates have continuously been pushed and also feedback from certain contractors revealed that between bid opening and signing of LOIs there is a lot of delays and issues. My first question is what are these issues and how serious are they? The second question related to this is how is this going to affect execution? We are obviously seeing order book inflow for a lot of contractors, but is there risk to the entire system because of execution delays because of these issues?

Nitin R. Patel: In Sadbhav's case, we have taken these five projects and mainly in the north region of the country. So out of the five, one project, more particularly I could say this Ambala - Kaithal, where one bypass issue is there. So that is why obviously we have not yet signed a contract agreement with the client. For the rest of the four projects we have signed. This Yamuna Nagar project what we have taken Panchkula - Yamunanagar two projects are there and two projects in Eastern Peripheral Expressway, both we have signed. Yamunanagar, we have already completed mobilization and even in EP the mobilization as well the work has started in parallel. So all these four will be taken off, there is no doubt about the same. NHAI has also entered the contract agreement for the same with us. Rates what we have mentioned that the pushing back, obviously the hybrid annuity they have pushed back. What we were told that some of the cabinet approval was pending for these projects, so now for four or five projects the cabinet has given the approval. So what NHAI has mentioned that now it will not be shifted much then, one thing, and all these projects, land acquisitions major part we have also done the diligence before bidding, so a lot of land proceedings have been completed by NHAI. Obviously in various states EPC is there and it will be awarded by NHAI, but for our interest we are looking almost at least around seven to eight states as of now, considering some of the part of the country we are not going to bid also even in the EPC front. So that is how we are contemplating, but the momentum what we see is even from backside the push up is also very hard, even Mr. Gadkari is also taking a lot of interest about this, how this project could be developed. Further what we have seen is that a lot of time of NHAI officials is going behind the stuck project as of now. You might have heard that the majority of the stuck projects of the various developers is being taken up for the meeting, every 15 days they are calling. Even, recently PM has also started taking up review of the same and they have started pushing very hard. So I think a concrete decision will come up. This is also one of the headaches for NHAI because once this will be taken up this will lead to further improvement in the overall working position of the NHAI as well.

B. Vijayakumar: My second question is on SIPL. Could you help me with what would be your target for peak debt at the SIPL level by FY'18 and so obviously matching to that there will be an interest component. So what is your target of EBITDA for SIPL in FY'18, will it be able to service the debt?

Varun Mehta: Yes, considering the current portfolio of 12 assets, three projects will be operational by FY'18. Right now we already applied for COD for Shreenathji-Udaipur. This will be operational in this year itself. Bhilwara-Rajsamand we expect it to be operational in Q4. Rohtak-Hissar will be operational somewhere in Q1 or end of Q4. Mysore-Bellary will be operational somewhere by around June 2016. So I think by FY'18 we will have the first full year of revenue for this entire portfolio. Particularly considering the debt level, the overall debt of SIPL at the consolidated levels will be somewhere around Rs.8300 Crores by end of FY'18 and obviously the finance cost what we are currently looking at post the refinancing and what sanctions we have got, I think the finance cost could be somewhere in the range of around 10% for the overall portfolio and right now we are getting refinancing at somewhere around 9.8% to 9.9%. So definitely we expect some reduction in the base rates by the bank going forward. So I think, the overall finance cost of the SIPL consolidated will be somewhere around 10%. Assuming the current run rate of the toll revenue which is operational plus the under construction which will be operational in the next six to nine months, I think by FY'18 we will definitely have a huge amount of cash surplus. As we were discussing in our last session also, from second half onwards of FY'16 we will have a positive cash flow at the SIPL consolidated level which will definitely increase from year onwards with my revenue increasing on a Y-o-Y basis and my finance cost sort of decreasing on a Y-o-Y basis.

B. Vijayakumar: Understood. Just to clarify, if your debt is about 8200 in FY'18, your interest around Rs.800 Crores and toll operations steepingly do 70% - 80% EBITDA margin. So revenues in FY'18 for the SIPL consolidated level should be somewhere around Rs.1000 Crores, is it fair to assume that?

Varun Mehta: Yes, it will be definitely very high than that because this year itself we shall land somewhere around Rs.740 to Rs.750 odd Crores and with three projects still under construction plus Maharashtra border check posts, right now we are collecting only from 13 check posts. The revenue in FY'18 will be definitely higher than Rs.1000 Crores, will cover the entire interest cost and plus the surplus after the debt repayment also.

B. Vijayakumar: Final question, what would be the risks for these revenues, if at all there is a risk that you are foreseeing?

Varun Mehta: I think right now if you see, our current stage of the entire portfolio, nine of the projects are operational. We have the asset being established in the last four to five years in some of the assets and some of the assets is seven to eight years. I think for these nine projects we are definitely sure that the traffic which is plying on this road and whatever growth we have seen in the last 15 to 16 months it will continue for the next two to three years, where we expect the economy to also grow and for the under-construction project if you see, the projects are more or less in a completion stage only. There is not much amount of construction risk which is there probably for the under-construction project also because we expect all the three projects will be operational in the next six to nine months. So I think from an overall perspective, looking at FY'17 – FY'18, we do not see a major risk in terms of our toll revenue or our objective to meet the entire finance cost also. The only risk will be that about the growth rate, the growth rate will be either say 10%, 12% or 8%, we do not know that, but I think looking at the current portfolio and looking at the way our projects are located in very high industrialized states and in very high areas where we have seen the average GDP is higher than the other India GDPs, I think definitely we expect that the portfolio will perform better as compared to the heavy industry.

Moderator: Thank you. Next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: Hello Sir. The stuck projects which we are targeting, what are the kind of IRRs which you could be keeping as a hurdle rate?

Varun Mehta: It will be higher than the normal bidding actually because we are taking out all the pains to settle the issues of the three way - client, lenders as well the earlier developer, and we are taking the construction risk also. Naturally the return will not be substantially higher than what we are taking in a normal BOT project, there is no means to go for these projects. That is where how we are designing and obviously it depends upon finally how you are shaping up the project.

Charanjit Singh: Okay, and we have talked about our financing costs coming down, so one is like it is about the renegotiation with the consortium bankers and are there any other ways of bringing down the finance cost which we are working on?

Varun Mehta: Particularly at the SPV level what we can say is obviously first thing is the reduction in the finance cost because of the refinancing and reduction in the base rate by the bank. Another thing obviously right now what structure is available in the market is the bond structure. Right now, we are refinancing the existing loan with part bond and part duty loan structure. Probably the bond pricing is lower than the client's RTL pricing by roughly around 70 to 100 basis points. I think definitely the bond structure is one of the options, so right now we are just doing with around 20% to 25%. Going forward once if we have the interest rate bottoming out may be FY'17 and in FY'18, we will convert majority of your loans into bond at the SIPL level, probably we can lock in the interest cost there.

Moderator: Thank you. The next question is from the line of Jiten Rushi from IDFC. Please go ahead.

Jiten Rushi: Good evening Sir. Congratulations on a good set of numbers. Just a book keeping question I want to know, what would be the investment of SIPL in the SPVs by the end of this year. As on date I can see on Rs.435 Crores by investing in Mysore-Bellary and other projects, what would be the investment of SIPL?

Varun Mehta: The total investment of SIPL as on September 30th probably in all the SPV including Dhule - Palesner is around Rs.2000 Crores and there is a part investment which is pending of roughly around Rs.14 to Rs.15 Crores in Shreenathji - Udaipur and plus Rs.79 Crores investment in Mysore - Bellary. I think the overall investment of SIPL in the SPV will be somewhere around Rs.21 and odd Crores by the end of this fiscal.

Jiten Rushi: But the non-current-investments which we see…

Varun Mehta: You have to add the non-current investments plus the long-term loans and advances because non-current investment is actually the equity investment which has been done by SIPL into the SPVs. The structure of the equity investments in the SPVs, for example, in one of the projects Rohtak - Panipet out of the total equity we have invested 20% as a pure equity which is lying in the share capital in the books of the SPV which is lying as a non-current investment in the book of SIPL standalone and the rest 80% has been invested by way of sub debt which is lying probably as a long-term debt in the book of the SPV, which is lying as a long-term loan and advances in the books of SIPL standalone.

To combine both, this is the equity investment what we have done from SIPL into SPV which is around Rs.2000 odd Crores in Dhule - Palesner.

Jiten Rushi: The total combined including equity and sub debt would be how much?

Varun Mehta: Total equity plus sub debt is around Rs.2000 odd Crores.

Jiten Rushi: I want to know how many projects we have bidded right now, outstanding bids for the road projects in terms of value and number of projects?

Nitin Patel: Outstanding bid is not there. We have got a prequalification actually. We are having prequalification for almost all the upcoming projects, even for mining as I mentioned that we got prequalified in these two projects - one is the KPCL and one is from Neyveli Lignite. These two we are working out the bids, even for all the road projects the bid is under preparation. So as and when it comes, we will obviously continue to participate and thereafter we will be able to work out, but as of now no outstanding bid is there, which we have already submitted and we are awaiting the results or like that.

Jiten Rushi: In terms of SEL, what would be the run rate on the revenue side moving forward or what is the growth you see in FY'16 - FY'17?

Nitin Patel: Revenue growth in the current year we are looking at as a minimum should be 20% higher than the FY'15 numbers, on an average basis, so this is for FY'16. For FY'17 it depends upon how the new projects are coming into the line because there is still a time gap is there, but obviously the idea is that the way traction is there in the sector, we are quite bullish that we will continue to grow another by 20% for a couple of years.

Jiten Rushi: Sir, as you said margins of around 10.5% - 11% would be maintaining.

Nitin Patel: Below that I think we will not put the bid also.

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

Prem Khurana: Good evening Sir. If I will look at our numbers for Sadbhav Engineering, at least for the last four quarters or three quarters, we have been doing around Rs.400 or Rs.450 odd Crores of number from our captive BOT projects and you are talking about Rs.800 odd Crores of number that you would be able to book in the second half. So we will hardly be left with any order as far as our captive BOT projects are concerned wherein we get to enjoy better control of execution timelines. Given the present trend, do you see EPC orders to be able to fill up the void that would get created on completion of these BOT projects, would they be able to give the kind of number that we are able to do from our BOT projects and how the margins kind of shape up if you will have more of revenues from EPC orders and third party equity orders rather than having it from our captive BOT wherein we get to have somewhat better margins?

Nitin Patel: Normally in Sadbhav case, you might have observed that during the last eight to nine years we have maintained even for our own BOT we do not charge more than 11% - 12% of the EBITDA for our own BOTs. Even for the government contracts also we are having this threshold. Below that we do not even, though if we could not get the job that is enough for us, that is another part. The third thing what I would like to mention is as you have stated that the filling of the gap by EPC. So if you recollect that in FY'14 and even in FY'15 a large amount of revenue was coming from the Chinwada project which is a purely EPC contract and in one year itself we have executed Rs.1000 Crores of the EPC work in one single project. So considering the way the orders are there in EPC as of now and also how the business has lined up and how the company is focusing, we are of the view that we will be able to get the reasonable business also in hand and also able to execute, because rather than having the orders implementation will be the more trigger point. Plus as we have mentioned that we are looking at some of the stuck projects. How we would like to balance it that if one or two projects is coming in our kitty and with some decent margins at SIPL level also, we will be able to get the sizeable EPC. This will add further business where we are constantly focusing on these kinds of activities also in the ground level.

Prem Khurana: Would you be able to give us a kind of a sense out of this Rs.9300 odd Crores of order backlog that we have as of today, what proportion of this is yet to be taken up for construction would have been received very recently and you have not been able to mobilize resources, would not have been able to start booking revenues. So I understand last quarter the number that we have received in this quarter Rs.1500 odd Crores of orders where you would not have started work as yet. Out of total Rs.9300 Crores odd what would be the proportion that is yet to go under construction?

Nitin Patel: Only one project of this Ambala – Kaithal, I think the size of the project is a little bit around close to Rs.500 Crores, this we will not be able to take up in this quarter and the rest of all the projects I think we will be in a position to take off.

Prem Khurana: The stuck projects that you talked about, these are stuck for the want of funds or for clearances of land, if these are stuck for land what gives us confidence that we will be able to get this sorted and kind of get these moving?

Nitin Patel: The first reason is that obviously the project got failed because there maybe the viability challenge of the project, number one. Second, some of the clearances could not have taken place in time and now it is half a way and the developers now could not manage further equity and they might have failed for other projects also, there is a cross default in his case. Now lender does not want to commit any funds to these kinds of projects. The moment the time is passing, the cost is also getting increased, client is also worried, there may be chances of litigation between three ways, so that is why everybody wants to get rid of this and if possible they can take some possible haircut and make the project viable if somebody is ready to take at appropriate level. These kinds of activities have already been started, even two - three other agencies are also carrying out these kinds of activities, so depends upon how best people are managing the things.

Prem Khurana: But then is it fair to assume that the land would be in place?

Nitin Patel: Now it is completely in place, financial closure is in place. The same set of lenders are ready to fund for the balance of the project.

Prem Khurana: Would the SIPL be required to extend any stopgap funding to any of its SPV as in case of Rohtak Panipat wherein we have not been able to move our number, our toll collection number of last quarter was around 24 lakhs, this quarter it seems to be around 22 lakhs, so would we be required to kind of extend any stopgap funding to Rohtak Panipat in specific or for that matter any other SPV in general?

Varun Mehta: Particularly for Rohtak Panipat you see as on March and also as on September we have extra cash balance lying of around 40 odd Crores in that particular SPV, so it was part of the total project cost only, this 40 Crores can take care of the cash shortfall if any which arises because of the sort of lower revenue and also we have got the premium deferment approved by the NHAI in this particular project, so we don’t have to pay the premium also on this, so I think probably it would not require any support in this project from the sponsors assuming that the toll revenue which has increased greatly in the month of October especially post the installation of the height barriers on the road definitely the traffic should improve in this particular quarter and also we are hopeful that after the sort of penalty implication which has been sort of called in the Supreme Court for the vehicles entering in the city of Delhi I think we are hopeful that there will be some amount of diversion from that particular road to Rohtak Panipat road also because Rohtak Panipat Road was earlier established as a bypass to the city of Delhi, vehicles plying towards north of Panipat or say towards Amritsar also.

Prem Khurana: Rohtak happens to be a contiguous stretch, when we bid for that project what kind of number did we bid in our IST method the kind of number we are able to do at Rohtak Panipat or higher than that, the estimated toll revenue that you would have in place for first year of Rohtak Hissar these were based on what as in your separate kind of due diligence analysis of your traffic at the road or based on the numbers that are there for Rohtak Panipat?

Varun Mehta: See if you see in case of Rohtak Panipat also the actual traffic which is sort of there on the road because you have done traffic on various times and Rohtak Panipat and also obviously we have installed the automatic vehicle counting machine which sort of counts the number of vehicles which is there on the road, so I think on the basis of both these reports we have seen that the actual traffic which is plying on the road is somewhere around 33 lakhs, 34 lakhs per day against we are collecting around 24 lakhs, 25 lakhs per day as of now, so definitely in terms of the traffic the traffic is definitely there on the road, it is only a matter of time how do we capture that in to the revenues because of the various issues in terms of we have to provide discounts or exemptions or because of the district road which is there near the toll plaza, so I think in terms of the estimated versus the actual number obviously there is some difference because of the leakages but I think in terms of the total vehicle which are plying on the road we don't see any huge difference because obviously we estimated somewhere around 36 lakhs a day at the time of the bidding and right now the actual traffic plying on the road is around 33 lakhs, 34 lakhs a day.

Moderator: There is a question from the line of Parvez Akhtar from Edelweiss Capital, please go ahead.

Parvez Akhtar: Good afternoon Sir, congratulations for a good set of numbers, Sir couple of questions, what is the kind of toll hike that we have witnessed in our BOT projects, I think in Ahmedabad Ring Road and couple of other projects we would have had toll hike in the month of September, what is the quantum of that toll hike?

Varun Mehta: The toll hike has happened particularly in Ahmedabad ring road because the concession agreement policy is that the toll rate will be hiked every first of September and so from first of September 2015 the toll rate has increased by roughly around 2 to 2.5% in this particular stretch.

Parvez Akhtar: Sir what about Bijapur Hungund and Dhule Palesnar?

Varun Mehta: Yes for Bijapur Hungund and Dhule Palesnar obviously these are all NHAI concession agreement under the model concession agreement the toll gate hike is every April 1, so in this project we got the toll gate hike on April 1, 2015 and the hike was somewhere around 2.8%.

Parvez Akhtar: What is the gross debt at SEL level including the current maturity of long-term debt?

Nitin Patel: Standalone basically as of September 30 it was outstanding around 1150 Crores.

Parvez Akhtar: Sir what would be the commissioning schedule for the balance check post in the water check post project?

Varun Mehta: See as of now 13 we are collecting, we are likely to get the completion certificate one we have 14th we have already received now this Borgaon and another three we are expecting just within a period of by the end of this month we should get three new check post completion certificate, then it will become 17 and before March there will be only one check post we will be leaving that is Inshuli which is Goa border, rest all borders basically of Maharashtra will be under completion.

Parvez Akhtar: Sir after the developed portion gets completed in Dhule Palesnar what would be the kind of toll that we expect there?

Varun Mehta: Particularly after the completion of developed station we expect the developed station to be completed by end of this month, so on the basis of current toll rate the revenue will increase by somewhere around four to lakh per day because of that.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC securities, please go ahead.

Parikshit Kandpal: Sir I just wanted to know how much will be the early completion bonus we will be able to correct for the under construction projects?

Nitin Patel: See, the formula what we have entered in to in the EPC contract like whatever toll surplus the SPV will get for that early completion period after deducting the expenditure of toll collection and maintenance whatever amount remains, 75% of that surplus will be passed on to the EPC contractor as a bonus. That is the agreed formula for each of the EPC contract, so depending upon the projects how much early it is getting completed and what is the revenue but in a nutshell what we expect the way the construction is going on we are expecting that all put together we may get around close to 100 Crores of the bonus for FY 2016 and FY 2017 if everything for the balance period on track.

Parikshit Kandpal: For FY 2016 we get it from fourth quarter onwards or?

Nitin Patel: Yes obviously it will be booked in the fourth quarter only because this Bhilwara-Rajsamand we are likely to complete in January actually so February onwards the schedule completion was somewhere around April or May so we may get the bonus of three to four months and Rohtak Hissar also schedule completion is somewhere around April 2016, that also we are likely to complete in the Q4 that will also lead to the bonus and Mysore Bellary seems to be a reasonably higher because the construction pace is high and in that particular project it is 40 lakh rupees a day, it is early completion bonus from client itself, so that project we are likely to see at least around a 9 to 10 months early completion.

Parikshit Kandpal: And this will keep on accruing on a monthly basis so as the toll gets collected it will be paid to you on a quarterly basis or how?

Nitin Patel: Yes on monthly basis we will continue to raise the invoice on the SPV and obviously payment also will be discharged by the SPV as and when the month completes.

Parikshit Kandpal: On the mining side you said capex requirement will be 650 to 700 Crores and you will be doing annual revenues of 850 to 1000 Crores and the life of the equipment is 8 years to 9 years so typically if we see 20%, 10% will be your depreciation and almost 10% will be your interest cost, so what kind of margins typically we will be targeting in this segment so that we can make money?

Nitin Patel: See MDO will be higher margins, we have to see as I have mentioned earlier it is not IRR business, it is payback period business, we will continue to adhere to that as early as payback period we can get, so the margin level will be substantially higher than what we are doing for contract mining now.

Parikshit Kandpal: Will it be higher than the EPC margins which you are making right now, 10 to 11%.

Nitin Patel: Obviously it will be higher, otherwise there is no meaning for going and doing these kind of capex for mining projects.

Parikshit Kandpal: How is the eligibility here, is it typical like we have eligibility for certain size of the contract? Because it is 25000 Crores of contract, is there anything like in roads we have that you are qualified for certain roads of work?

Nitin Patel: There are three ways qualification is being considered, one is the size of equipment you own, number one, we own almost more than 600 to 700 Crores on a gross block basis the mining equipment on balance sheet of Sadbhav Engineering, second thing on a yearly basis even FY 2015 we had executed almost around a 60 million cubic meter of the over burdened removal work that is also almost 1.8 times higher than this contract how we are supposed to execute and third is the net worth criteria that should be more than 1000 Crores, so now Sadbhav has already reached above 1000 Crores, so we are meeting almost all the criteria there.

Parikshit Kandpal: Sir this peripheral roads order which we got, what are the risks pertaining to sourcing of aggregates in this region and are we going to deploy our own crushers or already sourcing that aggregate here?

Nitin Patel: It will be our own crusher as I mentioned I would like to put here there are five contracts surrounding areas, Haryana side there are three contracts and two are in UP side, part in Haryana and part in UP, so almost the vicinity is the one, so more or less we will be able to get aggregate from one single location and we are going to have our own crushing set up and we have already done the projects like the Rohtak Panipat, Rohtak Hissar in these nearby regions.

Parikshit Kandpal: Aggregates will be from the leased basis?

Nitin Patel: Yes.

Moderator: I would now like to hand the floor over to Nitin Patel for closing comments. Over to you Sir.

Nitin Patel: Thank you very much to all the participants on behalf of Sadbhav Engineering Limited and Sadbhav Infrastructure Project Limited and again I would like to thank all the research analysts as well as the investors whoever have put faith and confidence and assessed the company as well as every part corner of the company in a right perspective, even from a company perspective we are very open and again in this forum I would like to emphasize that whatever information whatever data is required of the company we are happy to provide on immediate basis and going forward as we have mentioned and given the updates this way we will continue to focus in these three segments without looking for the new segment and how the business is coming within the couple of quarters depending on that the whole strategy of the company will be determined over the period of time, so that is from my end and thank you very much to all for taking your valuable time today.

Moderator: Thank you very much members of the management. On behalf of Inga Capital, that concludes this conference call, thank you for joining in and you may now disconnect your lines.