



# “Sadbhav Engineering Limited Q2FY15 Results Conference Call”

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**MANAGEMENT: MR. NITIN PATEL – EXECUTIVE DIRECTOR & CFO,  
SADBHAV ENGINEERING LIMITED**

**MODERATOR: MR. NITIN ARORA – RESEARCH ANALYST, EMKAY  
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**Moderator:** Ladies and Gentlemen, Welcome to the Q2FY15 Results Call of Sadbhav Engineering Limited, hosted by Emkay Global Financial Services. We have with us today, Mr. Nitin Patel – Executive Director and CFO of Sadbhav Engineering Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 Arora – Research Analyst of Emkay Global. Thank you. And over to you, Mr. Arora.

**Nitin Arora:** Thanks, Malika. Good Evening, everyone, and thank you for joining us today. We would like to welcome the management of Sadbhav Engineering Limited and thank them for giving us the opportunity to host this call. Without taking much time, I would now like to hand over the call to Mr. Nitin Patel. Over to you, sir.

**Nitin R. Patel:** Thank you very much, Nitin bhai. First of all, I am very much thankful to all the participants who have taken their time and Good Evening everybody. On behalf of Sadbhav Engineering Limited, I warmly welcome all the participants to the Earnings Call of Q2FY15 and HI of FY15.

During last conversation of the quarterly results, we have also discussed that the government and ministry should take steps to revive the growth in the economy. We have already seen at least from NHAH that many projects are lined up for bidding in the balance part of this current financial year. As per the data uploaded by NHAH on their website as well as various projects floated by the certain state governments, there are approximately 38 projects in RFP stage with total project cost of approximately Rs.34,756 crores. Also, there are 36 projects in the RFQ stage, with a total project cost of approximately Rs.30,699 crores, out of these almost 97% of the projects are in Road segment only. So this is a major move, has happened particularly in the Road sector, which is the largest revenue contributor for the company, historically also, and also company has shown the strong order book position in this sector in the past also.

Now, I am happy to share that we are confident to touch the highest standalone and consolidated revenue in the history of Sadbhav during the current financial year, also looking at overall bidding scenario and based on our readiness, we believe that we will be able to touch new highs in execution in the coming years.

Now, let me start with the summary of this quarter’s standalone financials. Our revenue for the quarter has increased by 58% to Rs.594.6 crores as against Rs.375.4 crores last year. EBITDA for the quarter has increased by 53% to Rs.59.6 crores as against Rs.38.8 crores last year. Profit after tax for the quarter was at Rs.10.1 crores as against Rs.28.1 crores last year. Last year during Q2 of FY14, there was a tax reversal item of Rs.18.7 crores due to which the PAT was impacted positively. So that is the reason, if we give the impact of the same, in the previous year’s same quarter, so the profit after tax for the current year’s quarter has also

shown improvement. Also, the EBITDA margin for the quarter stood at 10.02% as against 10.35% in the same period of the previous year.

Now, I would like to highlight here some eventuality, particularly in terms of the sector. Historically, everybody is aware that the company is executing majority of the projects at our own actually. Apart from that, certain projects the company has entered into joint ventures with certain parties in the sector, and also during the turmoil which has happened during the couple of years, some of the agencies who were working as subcontractors or as a joint venture partner and executing some share of jobs, because of their financial strength and financial stability has come down and deteriorated, so they were not in a position to handle the jobs, and during the last four to five months, we were also facing some of the complaints from the clients particularly that Sadbhav has to intervene in such kind of projects, and according to the outcome of these three of the projects with the GKC Projects Limited, where the company has entered in a joint venture, three of the contracts particularly in Irrigation sector, company has taken over during the last three to four months, because of that immediately the company need to provide certain additional resources in terms of the material, also some additional working capital has been arranged by the company to overcome the situation and to keep the projects on track, so as to maintain the credibility of the company among all the sectors and all the clients actually. So that has also resulted to some extent at least impact on the EBITDA margins. So that is the reason why it has slightly come down. And also it is evident, you can verify that the percentage of material consumption has improved and the percentage of the construction expenses has come down during the quarter, actually even for the half also, that is the main reason is that almost majority of the work now company has taken over from these joint ventures and subcontractors, and the company has arranged the own resources, materials, and everything, and construction expenses which was booked now, to that extent it is not being booked. So that is also one of the reasons how it has worked. But for the next half it is completely on track, now everything is now under the control of the company. So we are confident that the next half will also give the improvement in terms of the EBITDA margin. Also, the company is confident that the certain parameters because of the reduction in the crude price that has resulted into the reduction in the HSD diesel price as well as we are expecting further reduction in bitumen price also, which is almost around 35% to 38% of the material consumption at our Road sector. So particularly in BOT projects, we see this reduction will give some improvement in increase in the EBITDA margin for the second half of the year. So that is just for the purpose of benefit of all we would like to highlight this.

On the Execution business for the transport sector, Chhindwara project has contributed revenue to the extent of Rs.107 crores in Q2 of FY15, while Synergy project has contributed revenue to the extent of Rs.109 crores and Rohtak-Hissar has contributed revenue of Rs.134 crores. By the end of this month, we expect to receive the appointed date with GKC for Karnataka State Highway Project, and as the work in this project will start contributing top line in the second half of the year. Also, in the Mining business, we have seen steady contribution with (Emlorie Mines) 8:28, which has contributed Rs.36 crores of revenue. Normally, in Mining sector, during the monsoon period, the mines are filled up with water. So generally we

do not see much of execution in the Mining sector during the monsoon period. As I have mentioned earlier that particularly Road sector and because of the delayed monsoon in the quarter, that has resulted into some incremental top line in terms of the revenue. We expect the EPC projects which we have won recently in the last few months to start contributing revenue significantly in the Mining sector also. So this is normal in terms of the Execution business.

Also, the company has won the orders in EPC business, particularly two mining projects in Rajasthan, amounting to Rs.525 crores, this we won in the quarter under report. The company has also received LOA for one irrigation project in Gujarat amounting to Rs.79 crores.

Now, coming to the BOT business, we have already shared the Toll revenue numbers in the first week of October. As evident from the Q2 numbers and also from the numbers till date, the traffic has improved significantly providing leading indicator for likely economic growth in the coming months. We have seen the exponential growth in past also once the economy revives. So particularly, our experience in Ahmedabad Ring Road and Aurangabad Jalna, where the Tolling has been done more than 4 years actually, and when the GDP of the country was beyond 6%, so all these two projects has seen the traffic growth ranging from 10% to 20% actually in those years. So we are of the view that coming period of time as and when the GDP will start growing, all the traffic numbers should start showing significant growth for coming period of time. Also, we believe that the coming two-to-three quarters will establish this upward trend.

Now, on the update in the BOT business from the company side, is that during the last three to four months, we have started consolidating stakes in our SPVs, because according to our assessment, bottom has been reached for the traffic, and hence we expect to obtain reasonable upside because of the economic growth in the coming years, and also the company is of the view, where the company is having the majority of the stake more particularly that consolidation will always be helpful if it has been calculated in terms of the return parameters considering the long concession period available. As a part of this, the company has signed a Share Purchase Agreement with GKC Projects to buy 24% of their stake in Mysore-Bellary Highway project, and has also applied to Karnataka State Highway project for their approval to give the effect of the same. Post this acquisition, our company will hold 74% stake in this SPV. Also, the company has signed Share Purchase Agreement with GKC projects to buy their entire stake of 40% in Hyderabad-Yadgiri Tollway Limited, and company has also received approval from NHAI for the same. Post the execution of the financing documents and payment of purchase consideration, our company will hold 100% stake in Hyderabad-Yadgiri project. Also, the company has signed a Share Purchase Agreement with Patel Infrastructure Private Limited to buy their entire stake of 20% in Ahmedabad Ring Road post client's approval and payment of purchase consideration, our company will hold 100% stake in Ahmedabad Ring Road also.

Now to conclude my initial speech, we would like to be again thankful to entire investors and analysts community for the valuable support and appreciation due to which the company has

successfully completed raising of Rs.250 crores by way of QIP placement during the month of October. Also, the promoters have been allotted 80 lakh equity shares post infusion of Rs.70 crores in the month of October. Now, majority of this money of Rs.320 crores, we intend to utilize to fuel the huge opportunity in transport, irrigation, and mining segment. We believe that many EPC projects and BOT projects to come up in the coming quarters from all the segments, and the company is fully geared up in terms of the all resources to grab the same. At Sadbhav, we look forward to win obviously the sizable and lucrative projects for a coming period of time out of the again infra opportunities which is available on the table.

So I think broadly this is from my end actually and we have also given the media release and data for all the SPVs as well as the quarter wise and the half yearly segment wise details. So rather than going all into the details I would prefer to request all the participants to have their questions and answers, so that will be more fruitful actually to understand the views and their ideas in terms of the future implementation for the development of the company. Thank you very much for listening to me and over to the floor.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Devang Patel from IL&FS. Please go ahead.

**Devang Patel:** Hi, Nitin Bhai, you spoke generally about traffic picking up. Can you talk of specific numbers on these four to five projects, what the traffic growth stands at in this quarter?

**Nitin R. Patel:** In Ahmedabad Ring Road particularly, in the Q2 of FY15, Toll revenue has increased by approximately 15% to Rs.20.27 crores against Rs.17.56 crores in the same quarter of the previous year. Also Aurangabad-Jalna where there is no increase in the toll revenue because Aurangabad-Jalna is having every third year the increment in the revenue. So particularly this is the only traffic growth which is 13% in Aurangabad-Jalna, so we have collected Rs.7.91 crores in the quarter as against Rs.6.94 crores in the same quarter of previous year. Again in Bijapur-Hungund, the total revenue has increased by 9% and we have collected Rs.25.96 crores as against Rs.23.63 crores. Also Hyderabad-Yadgiri has also shown a significant growth, it is around 19% growth in terms of the Toll revenue....

**Devang Patel:** We have the nominal numbers from the press release that you have given, if you can decode this in the specific numbers, how much is the increase in Toll rate and if we subtract that what would be the implied traffic growth?

**Nitin R. Patel:** On an average, because after giving the effect of 40% of the inflation and adding 3%, around five quarters will be the inflation, remaining is the traffic growth actually, particularly in this Hyderabad-Yadgiri, Bijapur-Hungund, and in Dhule-Palasner. Ahmedabad Ring Road around 6% is the inflation growth, remaining entire is from the traffic growth actually. So again in Maharashtra Border Check Post, the Toll revenue has increased, stood at Rs.22.20 crores as against Rs.6.31 crores, so that is mainly because start of another check post over a period of time, and I think Q2FY15 has seen nine check posts has generated the revenue, we are

expecting revenue from another four check posts to start within a couple of weeks once we get the notification, the COD for these four has already been achieved by the company, so this is in Maharashtra Border Check Post. Dhule-Palasnur, the toll revenue stood at Rs.31.73 crores as against Rs.26.09 crores in the same quarter of the previous year, and Rohtak-Panipat the numbers are available, toll has been started from this year only, so toll revenue for the quarter stood at Rs.19.92 crores.

**Devang Patel:** Maharashtra Check Post totally commercial traffic, would you have like-to-like for the same check post, what is the PCU growth, if you have it off hand?

**Nitin R. Patel:** PCU growth, Border Check Post, if I compare the PCU, because last year we were collecting the Toll in the particular quarter, only in two Check Posts, one is this Acchad and Mandrup, toll revenue itself that has shown a significant growth, because initial period, Acchad the Toll revenue was lesser actually because of the operational issues in terms of the number of operational lanes and everything during last year. So according to me the complete measurement is not available, but absolute number I can say what we have collected during the last quarter almost double of the same we have collected in the current quarter actually. Because I can say the number, for July, August, and September, we have collected daily Rs.10,98,000 in previous year, and the current year if I see we have collected almost around 18,058,000 a day actually in these same two Check Posts.

**Devang Patel:** Sudden pickup in traffic, now that we have seen in this quarter versus quite sedate trends in the earlier quarters, does this surprise you? And is there any element of seasonality in this – an extended summer or an early Diwali in this number?

**Nitin R. Patel:** No, ultimately to be very frank, because Diwali was in October, almost in the last week of October, so whatever traffic was there that was from July, August, and September put together, so it was reasonable, because this was the monsoon quarter, and particularly monsoon quarter has shown this kind of growth, and I can share this with you, that particularly in Ahmedabad Ring Road, Aurangabad, all these SPVs, current months also, because almost October and November, we are in the middle of November, so the traffic growth is very encouraging actually. So we are of the view that these SPVs are going to take up the complete show over the period of time.

**Devang Patel:** If you can just give a broad expectation of what kind of traffic growth we can expect for the next three to four quarters, what kind of ramp up can happen from here, you were talking earlier that we have seen very good years of 10% to 20% in the past, if you could hazard a forecast for the next two to three quarters, how much ramp up is expected?

**Nitin R. Patel:** It is very difficult to say, because out of our past experience, because Ahmedabad Ring Road and Aurangabad Jalna almost more than four years, five years we are collecting the toll, and we have seen the complete economic cycle in these two SPVs. So all this is up and running these SPVs. So we have seen that when the GDP was 7% Ahmedabad Ring Road has shown a

traffic growth of 22%, and Aurangabad Jalna has shown 16% to 17% traffic growth actually. And now completely the view is that it has bottomed out. Ultimately, if you see the previous year as well if you see the June quarter almost everything was bottomed out, now from these bottoms the things have started moving upwards, now we have to consider based on the past traffic, the data available we have to calculate that.

**Devang Patel:**

A question on the Mining business, if you have seen the ordinance on coal mining and third-party mining allowed, any thoughts of entering the auction process and have you explored tying up with any foreign partner?

**Nitin R. Patel:**

What management and company has thought that until and unless complete clarity and even the process has some verdict by the Supreme Court is there, because a lot of people have very bad experience particularly in terms of how the process has happened. So obviously company does not intend to venture into these kinds of things as an early mover. That is #1. And obviously we have not yet started any process to join the hands with any of the international players or any large players as of now.

**Moderator:**

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

**Amit Shah:**

My first question is on the EPC business. What will be the FY15 revenue? Would you maintain the same guidance as you indicated at the beginning of the year? And second is what margins are you expecting for the full year?

**Nitin R. Patel:**

As I have mentioned earlier also, considering the order book, which is almost above Rs.8000 crores, and also there is a huge pipeline in terms of the PC and all put together, at least two new mining projects as well as this Karnataka State Highway Project is about to start, all sites and everything has been completely established. So we are of the view that the second half should give reasonable growth as compared to the second half of the previous year. According to our estimate, we should almost have between 20% to 27% of the growth over the previous year on a yearly basis, this is what we are looking. And apart from that margin level, as I have indicated, that particularly in the Road sector and in the BOT sector, because the company has reasonable and good BOT projects on hand. This fuel price has substantially come down, more than almost Rs.6 a liter there is a reduction in diesel price, and also the bitumen price has also started going down actually. So if the trend continues and the same parameters is even maintained over a period of time, even that will further add to the margins, obviously, margins should go up actually. So, according to our assessment, we should again touch the same levels, close to 11% EBITDA margins, we are of the view.

**Amit Shah:**

EPC projects of the state governments, some of the bids happened in the last month, did we participate and are we L1 anywhere in many of the bids?

**Nitin R. Patel:**

According to my assessment and my understanding, Uttar Pradesh has come with some of the Road projects, particularly, but we have not gone for the bidding of that project, so we are not

there, and further new Road projects has come, MP has again come for some of the projects, even Karnataka is also coming out with some of the projects, particularly which are again World Bank and ADB funded projects. So obviously the company has submitted the RFQ and also a couple of projects we have submitted bids also, where these are the funded projects. Apart from that, all the NHAI projects, company has got the qualifications in both actually – EPC as well as BOT. As I mentioned earlier, there are around 38 projects which are in the RFP stage, so all 38 projects Sadbhav has qualified.

**Moderator:** The line got disconnected. I will take the next question from the line of Naveen Jain from JM Financial. Please go ahead.

**Naveen Jain:** Just a few questions. One, now that there is a very strong pipeline of orders as you indicated of the projects from NHAI side. So what is the kind of projects, a number of projects, or in terms of project cost that we would be targeting to win, especially on the BOT basis, let us say over the course of next six months or one year?

**Nitin R. Patel:** The BOT projects, which has come for bidding, according to me, as of now what the data has put by NHAI, is around close to Rs.30,000 crores worth of projects are there on the BOT front. The project cost is ranging from say I think around Rs.700 crores to Rs.800 crores to again Rs.2500 crores to Rs.3000 crores actually. Depending upon the viability of the projects, company will venture actually. We have already started deploying the team to study all these projects completely afresh, because some of the projects which are coming for rebidding, we had also done a lot of delinquencies during the earlier stages, but everything we have to do upfront now. We will go based on the complete viability, and what the parameters, management or company will decide, based on that we will continue to bid, but it may range from say Rs.1000 crores, Rs.1500, 2000 crores depending upon what are the ground challenges, if the ground challenges are completely okay, and all the clearances are there, so we may even go for the larger size projects also for the bidding.

**Naveen Jain:** From our balance sheet perspective, do we see any limitations in terms of how many number of projects or how much worth of projects that we can bid over the course of the next 12 months?

**Nitin R. Patel:** Actually, there is no such limitations, because already the qualifications and everything is there, except only thing is that the company has to work out which kind of equity, debt and either grant or whatever how best mix can be worked out, while putting the bid. So that will be the parameter, which kind of business we are really adding actually, so all these parameters we need to keep in mind. The only thing which is clearly evident is that we are of the view that this time there may not be major competition in terms of the BOT projects. So, that will give the more leverage to the company to have to play flexible on.

**Naveen Jain:** Other thing is if you can share what is the equity requirement that is pending in your projects and especially considering that we are acquiring further stake in some of these projects?

**Nitin R. Patel**

Altogether if we see that as of now for ongoing projects actually, including this Karnataka State Highway, so, all put together, we need to organize around Rs.250 crores, the total requirement balance was Rs.250 crores as of 31<sup>st</sup> March actually, so, out of that almost around Rs.85 crores of the equity has already been infused. So, hardly around say Rs.190 to Rs.195 crores of the equity will be required to complete these ongoing projects. Out of this, we have to basically infuse say around Rs.110 crores during the second half of the year and balance will be the post-March actually.

**Naveen Jain**

But this does not include your acquisition cost of let us say at Hyderabad-Yadgiri Project or Ahmedabad Ring Road Project, right?

**Nitin R. Patel**

Correct, that is not including, but say all inclusive once almost these 3 are completed. Karnataka State Highway Project which we need not have to pay any consideration actually because it was a fresh project. But component we have already included, because now we have to pay the 74% of the equity as against 50% earlier. Hyderabad-Yadagiri outgo is around Rs.26.5 crores and again in Ahmedabad Ring Road, it is around close to Rs.60, 62 crores for that part actually. So, close to around Rs.89, Rs.90 crores will be there. So, that we need to basically and a company is in a process to arrange this long term requirement actually. So, I think the SIPL will be able to manage these on a standalone basis to fund these requirements actually.

**Naveen Jain**

By when do you think we will get some clarity on Dhule Project, whether we will be buying it or not, because I guess we were valuating buying that project also, the balance stake?

**Nitin R. Patel**

It is not yet finalized actually. But if that everything is completed obviously because we and HTC both being basically obligated to disclose, so, obviously, we have to come and disclose. But as of now, things have not been finalized actually for Dhule.

**Naveen Jain**

In the Rohtak-Panipat Project, again in this quarter also, actually the Toll Collection fell compared to Q1 and running fairly below what was expected. So, do you see any improvement there starting to happen or by when you think traffic will really pick up in this project?

**Nitin R. Patel**

Obviously, the earlier also, and there is a lot of news item everybody is evident that because of this election and political situation particularly in Haryana particularly in this Rohtak and all this belt, that has resulted, because in the Q2, there is slight reduction as you mentioned it is correct actually. Post this election traffic has now started picking up and now the traffic has improved at a reasonable level obviously beyond what was we have collected in any of the quarters earlier at least almost more than 3 quarters, we are collecting the Toll. So, the traffic has started coming up actually. And also post this deferment of the premium, particularly in Rohtak-Panipat and Hyderabad-Yadagiri, we are of the view that the from FY'15 onwards basically, these SPVs should stabilize actually, again in terms of the servicing of its own requirement actually.

- Moderator** Thank you. The next question is from the line of Devang Modi from Equirus Securities. Please go ahead.
- Devang Modi** Sir, wanted to understand on the Mining segment what kind of gross block do we have now as of the current half year and what kind of turnover can we manage with this gross block?
- Nitin R. Patel** Total mining gross block, we are having around close to Rs.425 to Rs.430 crores actually. But since the majority of the equipments we have purchased recently and the new projects of another two are going about to start, it has just started actually, these two Rajasthan projects, so, we are of the view that with these actually, we should be in a position to get around close to Rs.700 crores to Rs.750 crores of the top line for FY'16 actually.
- Devang Modi** So, we do not plan to increase this block in the near term?
- Nitin R. Patel** So, for at least 6 months to next 1 year, we do not have any other plan actually, there is no requirement at all actually.
- Devang Patel** Because we have always mentioned that we could make (+18%) margins over here. So, currently, what kind of margins are we making on the Mining front?
- Nitin R. Patel** Mining at EBITDA level, we will be able to maintain that base actually. So, there we do not see because almost the client has the same and there is no any other challenge in any of these projects. Only thing is that because of the initial and the change in this depreciation policy particularly in terms of the New Companies Act, some depreciation amount has increased actually which has also resulted into the numbers what company is reporting actually. But from income tax perspective there is no change actually.
- Devang Patel** What is the estimated useful life of this equipment and what kind of working employed cycles do we see over here in Mining?
- Nitin R. Patel** In terms of the working capital, there will not be much additional requirement, because normally, the client makes the payment at least twice in a month and a couple of projects it is being monthly payment, so, maximum we can say 45 days working capital cycle in Mining sector. To your other question, excavator, normally it basically works around ranging from 6 to 9 years actually and dumpers has a life of around say 5 to 7 years normally depending upon how it is being maintained, how particularly road and particularly, internal roads and everything is being maintained during the operational period.
- Devang Patel** Currently, all the contracts we have are majorly related to overburden removal and extraction. Are we looking at any contract as an MDO and if that is so then that will entail a completely different kind of balance sheet requirement, so how seriously are you looking at the MDO route?

**Nitin R. Patel**

As of now actually the projects what we are looking and where because company has put the bid immediately, we have not yet basically decided to go for the MDO. Obviously, very big opportunity in Mining sector is opening up. So, that we have to evaluate at certain point of time. The idea is that actually tomorrow if these opportunities coming, and say company intends to go there, normally company will try to restrict its operation to the extent of mining operations. So, remaining things can be done by suppose, company tomorrow if decide and go for this some kind of joint venture or some kind of other players who are having the experience in this field actually, where the interest level of the company is to do the mining operations only.

**Devang Patel**

Sir, when we look at your September balance sheet of the Standalone, we see that the debt has gone up quite a bit and your working capital has also been stretched. So any reason behind this?

**Nitin R. Patel**

A couple of things as I have mentioned earlier that the certain subcontractors as well as joint venture partners actually they failed miserably to execute their job which has resulted in a 2-way actually. What has happened that particular subcontractor or joint venture partner could not basically make their site payment on a regular basis and also the client has also started basically blocking the funds. So, almost around 2, 3, 4 months basically payment has been blocked by the client because they were of the view that if the agency is not in a position to complete the job, then obviously that can be basically utilized for the scope of the work or to appoint another agency or like that. And apart from that basically, so all these works has been taken over by the company because they have had the Sadbhav's name is there because that Sadbhav does not want to basically desatisfy or put any mark actually to any of the clients that the Sadbhav has not completed the job, even though his name is in a joint venture and really he was not executing the job, okay? So, for these kinds of job basically initial site payment or outstanding payment of the particular agency needs to be made by the company. Apart from that additional resources in terms of the working capital management of the equipment, materials and everything has been additionally made by the company, #2, and also, some of the payments which client has held, so that payment has also not being released. So, now gradually, we have started getting this payment released, the work has started coming on the track. So, this is also the resulted effect because of that some additional infusion by the company. But we are of the view that by the time we will complete the job and the entire payment outstanding payment will be released by the client. So, all this that gap will be narrowed down and it will be settled over the period of just 1 or 2 quarters.

**Devang Patel**

So sir, this will obviously also have an impact on margins on these orders?

**Nitin R. Patel**

That has already impacted in the Q1. Because once company has taken over, earlier the agency which was working, so now the agency will not get anything, everything will be done by the company and whatever will come that will be retained by the company itself actually. So, rather than that, according to me, it should basically further normalize and it should further

basically close the gap actually because that heat which was there which has already been taken by the company during last 4, 5 months actually.

**Devang Patel**

Sir, which are the verticals and which are the orders where we are seeing this because as it is, we have a substantial BOT and Mining book where we should not have any subcontracting or we should not have any such issue, so, which are the verticals and sites that we are seeing this issue?

**Nitin R. Patel**

Particularly, that has majorly happened in the Irrigation sector, and in Mining sector one of the contracts where we have basically given a part work to one of the subcontractors, he could not do that, we have basically deployed the resources and completed the job. So, that irrigation sector work has been now taken over and the work is now going on to the satisfaction of the client.

**Moderator**

Thank you. The next question is from the line of Pranav Gokhale from Religare Invesco Asset Management Company. Please go ahead.

**Pranav Gokhale**

Just continuing with the previous question, these subcontractors and JV partners, do we have any outstanding from there and if at all what is the quantum?

**Nitin R. Patel**

Ultimately, I can tell that outstanding is to the tune of maximum say will be ranging from Rs.35 to 40, 45 crores actually all put together from this kind of JV or subcontractors. But mainly from the client side, because what has happened normally, when the agency will start slowing up the work or they will not execute, then the retention money will be held by the client. Almost I can say that 2, 3 months payment has been blocked by the client actually. So, that has also resulted of not getting the payment by that agency and again he has to comply his own site requirement actually. So, when we really take up the work actually, then we have to first basically pay the obligations of the site contractors, suppliers and everything actually, then after we have to enter and we have to start execute the job. Once the work will come up to a certain level the client automatically start releasing the payment which has already been blocked. So, that is the normal practice. And as a part of the process basically, we have seen there how the cycle has gone down actually. So, as compared to the whole of this, obviously because main being I can tell the name also, that is the mainly the GKC projects to whom we have given some of the subcontract as well as we have taken some job as a JV also. So, he went into the CDR now. So, that is the main reason he was not in a position now that has been taken up by the company and now it is on track.

**Pranav Gokhale**

He was one of your partners also in a project, right?

**Nitin R. Patel**

Obviously, Hyderabad-Yadgiri, we have purchased now, and Mysore-Bellary already we have taken over 24% and we are now going to control the entire SPV actually.

**Pranav Gokhale** So, in that case any additional requirement of capital which is required to be infused for these projects?

**Nitin R. Patel** No, particularly, Irrigation project does not require much CAPEX actually, hardly few equipments which company is already having actually. So, some we have moved and some we have basically taken through the some of the agencies and started the work actually.

**Pranav Gokhale** Sir, my question was relating to the GKC projects where we have bought the stake. How much money have we put in and how much further is required sir?

**Nitin R. Patel** There are two things. GKC was a basically equity holder in two of the SPV, that Hyderabad-Yadagiri and Mysore-Bellary, these are the BOT projects. So, there Mysore-Bellary, we need not have to pay anything to them. Hyderabad-Yadgiri, we are acquiring their stake for Rs.26 crores which he has already funded Rs.53 crores earlier actually. So, there the company is going to get at a reasonable price. Particularly in EPC where he was doing some of the irrigation job actually, so, those irrigation job has been taken over by the company and for which as I have mentioned that around Rs.35 to Rs.45 crores has been infused by the company to repay his obligation of the work actually. Work has been taken over, work has been started, now, we have started getting the payments from the client which he was earlier supposed to get actually, so, that will basically reduce the gap what we have funded actually. But this has resulted into some of the additional working capital requirement because earlier this working capital was being managed by GKC, now we are managing and we will complete their job and this will increase the order book also of the company.

**Pranav Gokhale** This order has been included in the order book which you have released sir?

**Nitin R. Patel** No, that has not been included now.

**Pranav Gokhale** Sir, the other question is on CAPEX now. For Mining-related and Construction-related, what would be the CAPEX number for the next couple of years and how much have you spent now?

**Nitin R. Patel** In Mining we do not see any immediate CAPEX now actually, because all the jobs we are having actually it is having adequately equipped now. In Road sector, whatever projects we are having on job there is any CAPEX requirement. But obviously, the new projects which will come up basically now considering the significant pipeline in Road sector, say, we are of the view that almost around 5,000 to 6,000 worth of the new job if company is taking, there is no requirement of the additional CAPEX but even that business is coming beyond Rs.6,000 crores worth of the job. So, obviously for that, we need to do some little CAPEX of the key equipments like batching plants, rovers, rollers or graders like that actually. This will be how the metrics will work.

**Pranav Gokhale** What is the CAPEX incurred in the current year sir till date, any broad number on that please?

- Nitin R. Patel** Current year till date we have made almost around Rs.98 crores of the CAPEX has been incurred.
- Pranav Gokhale** So, bulk has happened now and you might see revenue traction?
- Nitin R. Patel** Yes, everything has happened now.
- Moderator** Thank you. Next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.
- Achint Bhagat** Sir, in Rohtak-Panipat, what is the daily Toll Collection right now?
- Nitin R. Patel** As of now we are collecting around Rs.28 lakhs per day.
- Achint Bhagat** **Rs.** Your initial guidance about Rs.40 lakhs. When do you think that this Road can achieve close to that revenue?
- Nitin R. Patel** Because there were two issues. Initially, a lot of local players were not paying the toll, now, also one or two basically, the small roads were there where from which were being categorized as an alternate route actually, but technically as per the contractual term is not allowed. So, for one of the roads NHAI has recently given us an approval to plug that. And second, we are awaiting. So, once these two will be through, so we are of the view that we should get additional say around close to Rs.4 lakh a day Toll out of these two and remaining we have to start controlling the local traffic basically, plugging the local traffic which we were not earlier paying the Toll.
- Achint Bhagat** And sir in MBCT, what is the daily Toll Collection right now?
- Nitin R. Patel** It is around for 9 Check Posts we are collecting revenue to the extent of around Rs.29 lakhs a day.
- Achint Bhagat** By the end of FY'15 you will have about 13 Check Posts Tolling, am I correct?
- Nitin R. Patel** As of now, we have got this PCOD for another 4 Check Posts and based on the schedule of work which is going on now and the percentage completion of the remaining Check Posts for which the land has already been given by the government. So, we are of the view that another 4 Check Posts will be further operational by the end of March 2015; it will be 13 plus 4; it is almost 17 Check Posts, based on the current pace how the things is under construction now.
- Achint Bhagat:** The money stuck with the SPVs which is Dhule and MBCP, when do you expect to receive that and what is the amount currently outstanding?
- Nitin R. Patel:** Dhule, we have already started getting. So out of the outstanding amount of say close to around Rs.72 crores, we have got around Rs.36 crores is now on line and balance Rs.36 crores

we are of the view that before end of December this will be through. MBCP, again part amount we have received almost around Rs.20-22 crores but remaining amount we are of the view that before again another 2 to 3 months it will be required, because one approval is pending from the MSRTC side, once it will be through, so that money can be lined up and the payment can be released to the Sadbhav.

**Achint Bhagat**

Sir, if you could please break up your debt into equipment loan and as loans and advances given to SPVs or your standalone debt currently, if you can break it up please?

**Nitin R. Patel**

Equipment loan outstanding is around close to Rs.360 crores and around for the working capital and plus the additional working capital addition what we have infused actually, so all put together around Rs.480 crores is being utilized for the working capital purpose, remaining money basically company has an infused first basically for the NCDs for increasing the stake in SIPL of Rs.200 crores and balance is obviously plus some of the basically internal funds, all put together what Sadbhav has given a loan to SIPL actually.

**Achint Bhagat**

Sir, one last question, of this, because now you will get some money through from your SPVs as well and some working capital release will also happen, are you looking to reduce your debt, what is the comfortable level?

**Nitin R. Patel**

What was outstanding on 30<sup>th</sup> September, so at Sadbhav Engineering level, we have come down by almost Rs.140, Rs.145 crores down, so, part proceed is basically from some Dhule, some Border Check Post what has released actually. Also basically the certain money has been parked actually into this working capital limits out of the QIP process what company has received. This is a pure reduction actually if I say against without taking out this QIP, around Rs.140 crores has been reduced now actually.

**Achint Bhagat**

Rs.140 crores has been reduced and some proceeds of the QIP have also been used to reduce the working capital debt?

**Nitin R. Patel**

That has been parked actually now. Ultimate idea is that the company intends to utilize for the coming period of time, because once the new projects will start up and coming; so at that point of time company would have the efficient working capital strength actually to take up at least a sizable number of projects actually.

**Achint Bhagat**

We are hearing that NHAI has changed its payment terms which is also causing a stress on working capital days. Is that right?

**Nitin R. Patel**

Yes, you are right actually, NHAI has made 5% basically minimum construction requirement of each layer. So, that is why suppose embankment is there, so 100 Kms stretch is there, once the 5 Kms embankment top is not done, till then you will not get payment. So, once you complete the embankment top of 5 Kms, then you will get that portion of the payment. Then again next layer, you have to complete that 5 km, then you will get the payment. So, likewise

obviously, this will result into some additional working capital requirement and obviously, the agency has to execute the work job very fast actually, to get the payment very faster so that will be what whole idea NHAI has got.

**Achint Bhagat** And this last question, one data point from my side, what is your outstanding order book of the Chhindwara project and are you still getting the 80IA benefits on that project for tax savings?

**Nitin R. Patel** Yes, obviously that 80IA is eligible there and we are expecting another Rs.200 crores to 225 crores of the business from Chhindwara.

**Participant** And this will be executed in FY'15 itself?

**Nitin R. Patel** So, current itself, yes.

**Participant** And then the 80IA benefits will be in, after that you will be paying the normal tax rate?

**Nitin R. Patel** Normal tax rate. Except the new projects we get these kind of projects actually cash contracts because a lot of other gas contracts, EPC are in pipeline actually. So, that we will start further giving the 80IA benefit.

**Participant** On the current order book, this is the last project which will give you 80IA?

**Nitin R. Patel** Yes, it is the last for us.

**Moderator** The next question is from the line of Hiten Sampat from Quest Investment. Please go ahead.

**Hiten Sampat** Just a small macro question from my side sir. As far as this new government is concerned, they are talking about shifting from bitumen to concrete roads. So, what do you see as the requirement of cement and how does that cost structure change sir?

**Nitin R. Patel** We are also keeping a complete track with NHAI on a regular basis. Obviously, you are right that these process, NHAI has already been started actually. But, as of now whatever bids that came for bidding, the majority are for the bituminous work actually, #1. #2, obviously, because ultimately the real difference for the NHAI is that the price between the cost of the cement as well as the bitumen actually. Cement road are more costlier except NHAI gets the cheaper cement actually on a large quantum basis. So, obviously, that process is going on as of now at NHAI level what we are observing and also some of the companies have given the very attractive cement price basically. But absolute term, there is certain continuity is not there on the table now. If it will be there, we will be able to basically work out the whole difference.

**Hiten Sampat** So, what are you hearing about the cement price that they have bid sir?

- Nitin R. Patel** That actually, to be very frank, because we are not a party to that actually, because we are also hearing what the others are going on actually. But I think it is a sub-150 around actually what per bag actually how it is being reported.
- Hiten Sampat** And sir, how much would be the cost structure difference between Bitumen Road and Concrete Road as per your estimates?
- Nitin R. Patel** The current price level, if you see that the Concrete Road will be at least 35% to 40% costlier than the Bitumen Road.
- Moderator** Thank you. The next question is from the line of Nimit Shah from ICICI. Please go ahead.
- Nimit Shah** What will be the tax rate for the Construction business going ahead because this first half the tax rate seems to be lower?
- Nitin R. Patel** Yes, obviously, that is mainly because of the some 80IA impact of this Chhindwara project. So, going forward basically, once these say new project is not coming and this Chhindwara is completing, the tax will be the same 33%.
- Nimit Shah** And sir, this Rs.250 crores of QIP and plus additional promoter infusion, so apart from CAPEX majority would that be utilized for working capital requirements?
- Nitin R. Patel** Obviously, full, that is the whole purpose actually, plus now SIPL is lining up its own requirement for this equity and everything whatever long-term arrangement is there, so, that has been lined up at SIPL level.
- Nimit Shah** And sir, for Maharashtra Border Check Post, what is the Toll revenues which we are targeting like once these 8 Check Posts are operational from current 29 lakhs it will move to how much?
- Nitin R. Patel** 2 things there, obviously depending upon the whole actual traffic and everything, but another 4 which is under construction, we have not yet basically accounted, but the 4 which we have already completed and COD is there, based on the traffic number we are expecting that the incremental revenue almost to the tune of around Rs.7 to 8 lakhs a day actually is from the current level.
- Nimit Shah** So basically, Rs.36 to 37 lakhs from this 13 Check Posts?
- Nitin R. Patel** That should be actually.
- Nimit Shah** And plus additional 4 will give you additional thing?
- Nitin R. Patel** That will be the separate actually. Then we have to count again the numbers and everything.
- Nimit Shah** And sir, once all this 22 are operational, our assumption was around Rs.55 to 60 lakhs per day?

- Nitin R. Patel** Rightly speaking actually, as I have mentioned that it will be based on the actual traffic and at what point of time it is getting completed. Because 3 of the Check Posts, we are yet to take the possession of the land actually, and as per the Concession Agreement from 1<sup>st</sup> April 2016 onwards, Toll rate will again increase by another 17% to 18% actually. So, this whole metrics basically at what point of time it is getting completed and what will be the basically the total completed Check Post at that point of time, every point of time; this will be the real. But obviously, the project is now gaining momentum completely and it is coming really on a good track actually.
- Nimit Shah** And sir, on the SIPL level, what is the total equity investments which we have made? It is around...
- Nitin R. Patel** Total SIPL for all these projects basically as of now we have so far completed around Rs.1,380 crores worth of the equity investments, equity and sub debt both put together.
- Nimit Shah** That is from Sadbhav Engineering?
- Nitin R. Patel** I am telling SIPL level actually.
- Nimit Shah** So, this includes Norwest Funds also?
- Nitin R. Patel** Everything.
- Nimit Shah** So, SIPL has infused Rs.1,400 crores till date?
- Nitin R. Patel** Close to Rs.1,400 crores, correct.
- Nimit Shah** And balance Rs. 200 crores is pending?
- Nitin R. Patel** Almost right.
- Nimit Shah** So, this Rs.1,650 crores will take care of the entire BOT projects which we have currently?
- Nitin R. Patel** Yes, that will be all these 9, yes 13 will be over.
- Moderator** Thank you. Next question is from the line of Devang Modi from Equirus Securities. Please go ahead.
- Devang Modi** So, firstly, just for book-keeping purposes, wanted to know your consolidated profit or loss whatever it is for this quarter and half year?
- Nitin R. Patel** So, that is not basically upfront available with me actually, it is we have to check with the accounts and we have to confirm it.

- Devang Modi** And also sir, what is the total debt that is lying in Sadbhav Engineering consolidated? What I am referring to is, what is the part of current maturity of long term debt which gets covered under other current liabilities?
- Nitin R. Patel** It is around total Rs.105 crores.
- Devang Modi** So that will be added to the short term and the long term borrowing to get the total debt right sir?
- Nitin R. Patel** Exactly.
- Moderator** Thank you. Next question is from the line of Prem Khurana from B&K Securities. Please go ahead.
- Prem Khurana** Our toll numbers are up but margins are down; for Ahmedabad Ring Road it is down of 5% odd point on a sequential basis for Aurangabad-Jalna it is down around 21, 22% odd for Bijapur-Hungund also, it is down to 27, 28%. So, what would explain this compression in margins? Toll margin tend to be somewhat...?
- Nitin R. Patel** There are 2 things basically. Because, Ahmedabad Ring Road and Hyderabad-Yadgiri, we have met with major maintenance this year particularly. So, that is the main reason. So, once it is over, then now I guess 5 year, 6 year we need not have to carry out the same.
- Prem Khurana** And same would be the reason for Aurangabad-Jalna and Bijapur-Hungund last quarter around 103% odd.
- Nitin R. Patel** Both Aurangabad-Jalna and Ahmedabad. Bijapur-Hungund basically we have mentioned that in absolute terms a MMR provision actually, because all the SPVs we have started making the MMR provision actually. So, there is an incremental provision for major maintenance reason.
- Prem Khurana** If you could also share your comments on dispute with Monte Carlo and securitization for Ahmedabad Ring Road?
- Nitin R. Patel** Regarding this Monte Carlo, the status is that against the order of the CLB, we have moved to high court, and high court has basically stayed the process of the CLB, now it is with the say divisional bench of the Gujarat High Court, so nothing has come out from the same, it is at same level because the order of the CLB has been altered actually. So, once it will be moved and what decision High Court takes, then after we will be able to take steps further.
- Prem Khurana** But the partner is supposed to come and kind of inspect our books of account, already done that or ...?

**Nitin R. Patel** Already done in a long back, almost more than 3 to 4 months back actually, they have completed and I think nothing has come up either written to us or any of the forum it has gone actually.

**Prem Khurana** What is the status on securitization for Ahmedabad Ring Road.?

**Nitin R. Patel** We have not yet basically proceeded further actually, the way basically we are planning to move at SIPL level and we would like to considering the future requirement as well as how the beats and everything is coming, so, that is why temporarily we have not given the effect of the same on the securitizations actually. As and when some that kind of real requirement will come, then obviously we will think of the same actually.

**Prem Khurana** But then, where do we see SIPL to generate funds from? They would need around Rs.80, Rs.90 odd crores to buy the stake and another Rs.110 odd crores towards equity commitment. So, where would they get these funds from of around Rs.200 odd crores? They need this in second half, right?

**Nitin R. Patel** We have calculated whole this tax structure and everything. So, what we are of the view that it is better as of now to basically plan to raising this kind of funds, basically long term purpose at SIPL level actually. So, that is why basically, we have now started that process.

**Prem Khurana** There is any timing mismatch, is it fair to assume that Sadbhav would be required to kind of fund this till the time SIPL is able to generate this much money?

**Nitin R. Patel** No, as of now not that will, because, already one of the sanctions has already been received at SIPL level actually for this long-term purpose. So, I think that we will be sufficient to take care for almost what this year's requirement actually, and next year also we will basically plan almost 3 to 4 months or 5 months in advance basically, that we will further take up. Only thing is that when the new projects are coming on the kitty, then we have to plan some concrete arrangement actually.

**Prem Khurana** And sir, in the opening remarks, you talked about some 70 odd projects are being up for grabs. So, if this is the kind of the projects, what kind of competitive intensity are we experiencing in the market as of today or what is your sense of the competition or competitive intensity in the market?

**Nitin R. Patel** Obviously, it is open bidding, but particularly, in BOT segment considering what has happened to the past and considering basically present scenario of the majority of the projects, a lot of projects are halted, there are a lot of cross defaults and lot of other situation which has happened what we are hearing from the lender side and everything. So, we are of the view that the BOT, there will be very minimal competition. There may be around some bids may come but depending upon the size of the projects. So, some smaller size contractors may come, but

bigger size obviously, there will be some limited number of players, but obviously, there will be some reasonable competitors.

**Prem Khurana**

What will be our area of preference? You would be looking for BOT more because there is a little less competitive intensity in that segment or EPC?

**Nitin R. Patel**

Here we would like to restrict ourselves basically to balancing out actually. So, what we understand that Sadbhav is basically at better place because the availability, the blending of both actually, the EPC business as well as the EPC of the BOT basically, if we do the blending of the same, overall whatever business we can generate, that should generate the reasonable margins as compared to what we have made earlier actually.

**Moderator**

Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Nitin Arora for his closing comments.

**Nitin Arora**

Once again we want to thank the management of Sadbhav Engineering and we wish them all the best for the future, sir.

**Nitin R. Patel**

Thank you very much Nitin Bhai and Emkay global also for organizing this Conference. And also I would like to thank all the participants, analysts, as well as the investors who have taken their valuable time for understanding and also guiding us from your questions that what should the company keep in mind for the coming period of time, so, obviously, this is really helpful for the further betterment of the company. And from company side, company is now fully geared up as I have mentioned earlier and intends to grab the reasonable business opportunity considering how the infra space is going to basically grow in the coming period of time, because apart from Road, Irrigation, and Mining, what we are of the view that even the urban infrastructure is going to play a very big role for coming period of time as well as the one new sector what the company is looking or apart from that even large scale opportunity particularly in the Railways sector; that may also come up for the coming period where the civil kind of work actually is there. Obviously, this will be also one of the good opportunities which is similar of the Road kind of work actually. So these are what the management's view and thank you very much again for taking your time.

**Moderator:**

Thank you. Ladies and Gentlemen, on behalf of Emkay Global Financial Services Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.