



“Sadbhav Engineering Limited
Q2 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Sadbhav Engineering Limited Q2 FY2019 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Parvez Akhtar Qazi from Edelweiss Securities Limited. Thank you and over to you Sir!

Parvez Akhtar Qazi: Good afternoon friends. On behalf of Edelweiss Securities, I welcome you all to the Q2 FY2019 results conference call of Sadbhav Engineering Limited. Today we have with us from the management side, Mr. Nitin Patel, Executive Director and CFO of the company. I would now hand over the call to the management for their opening remarks. Over to you Nitin Bhai!

Nitin Patel: Thank you very much Edelweiss and Parvez bhai for organizing this call. And just to start with, good afternoon everyone on behalf of Sadbhav Engineering Limited, I warmly welcome all the participants and thank you for taking your valuable time for the earnings call for the quarter and half year ended September 30 2018. I am sure you must have seen the media release provided to the stock exchanges yesterday.

I will first start with the financial numbers then we will discuss the business outlook and bidding pipeline. The income from operations for the quarter has grown by 11.6% to Rs.691 Crores as against Rs.619 Crores last year. EBITDA for the quarter has grown by 5.79% to Rs. 83 Crores as against Rs.79 Crores of the last year. And profit after tax for the quarter has grown by 14.33% to Rs.38.29 Crores as against Rs.33.49 Crores of the last year. The EBITDA margin for the quarter stood at 12.07% as against 11.36% in the same period of the previous year. The EBITDA margin has increased due to change in the revenue mix. If you see during Q2 of FY2019, 67% of our total revenue is contributed by hybrid annuity projects execution, while during Q2 of FY2018, 78% of the total revenue was contributed by the road EPC contracts.

The income from operations for H1 of FY2019 has grown by 9.58% to Rs.1602 Crores as against Rs.1462 Crores of the last year. EBITDA for H1 of FY2019 has grown by 2.61% to Rs.190 Crores as against Rs.186 Crores of the last year. And profit after tax for the quarter has grown by 14.32% to Rs.101.70 Crores as against Rs.88.96 Crores last year. EBITDA margin stood at 11.88% in H1 of FY2019 versus 11.33% in H1 of FY2018. The debt numbers as on September 30, 2018 stood at Rs.1510 Crores, even during Q2 FY2019, we have raised Rs.190 Crores by way of NCDs, which are utilized to pay off the outside consortium short-term money which has been utilized by the company.

Here I would like to mention that during last six months, we are all know that there has been an increase in the prices of steel, bitumen, cement, etc., earlier we used to get the certain credit facilities for such purchases. However, we have tried to do this by way of the expediting the payment mechanism for such vendors where we can get the certain credit in terms of the discounting facility, the discount in prices of the materials and where we can get better prices. Due to these, you can see that the trade payables have reduced by around 160 Crores in the last six months, which resulted into the incremental margins for the quarter to some extent.

Now as mentioned in our conference call during Q4 of FY2018, we had mentioned five substantially completed project where outstanding debtors were to the extent of Rs.433 Crores where we had not got the payment by the end of March 2018. So out of this till now we have received around Rs.243 Crores from the client. Largely the client was NHAI and the Government of Karnataka and the balance Rs.119 Crores are expected to receive in the next couple of months.

Now as on date, we are yet to receive the mobilization advance to the tune of Rs.775 Crores from eight projects where we are going to start the execution and the appointed date will happen in between Q4 onwards actually. So now during Q2 of FY2019, we have added one order worth Rs.1620 Crores which is in the road EPC segment for construction of package V in Mumbai-Nagpur Expressway project in Maharashtra State.

In addition to these, we are L1 in one irrigation project worth Rs.198 Crores for which we are yet to receive the LOI, which is in the State of Karnataka. In addition to above if you see during Q1 of FY2019, we had added orders worth Rs.1312 Crores, making a total for the year of Rs.3130 Crores actually. So if you consider the last year's new order intake in FY2018, we had added around Rs.8593 Crores of the new orders and also till now, we have added another Rs.3130 Crores. So that is what the orders company has won during the last, we can say one and a half years.

Now on the execution front, top five projects by execution during Q2 of FY2019 have been disclosed in the media release. So now the order book if you see, the order book as on September 30, 2018 stands at Rs.13743 Crores, which translate to an order to sales ratio of 3.92 times of FY2018 revenue. As mentioned in the press release also, we expect the construction to start for five projects worth Rs.4,693 Crores in Q3 of FY2019 while the construction of four projects worth Rs.3,325 Crores is expected to start post Q3 of FY2019. We have discussed this in SIPL conference call also that currently we have seen the lenders' view in terms of the hybrid annuity project execution is a little bit different because if you see the large number of projects where the financial closure has achieved that is mainly by the private sector lenders actually or with the certain large scale NBFCs only. So their view is very much clear, they go by the very clear going by clause of the concession agreement and we have seen that they are very much reluctant to allow to take the appointed date before having the 80% of the unencumbered

land in the hand. So that is what we have witnessed during the last say six months and also we are of the view that this will continue for almost all the bidders who have taken the hybrid annuity project. So this is the scenario and considering all these points and apart from that what we have seen that the lenders payment mechanism also has increased to some extent during conference call of SIPL we have mentioned that the payment for each and every running bill earlier it used to around four to five days now, we are seeing that it is taking around 15, 20, 25 days also to some extent. So this is also the change we have seen on the ground but it is not so significant, but things are there which is why we would like to put before the floor.

So with these, we are of the view that for the full year, we will be able to achieve the growth of almost around 12% over the last year's revenue and if you see in the first half, we have achieved a growth rate of 9.58% and hence with starting the construction for the balance project, we definitely feel that the execution pace will increase in H2 of FY2019 and the same momentum shall continue in FY2020 also where almost all the current orders will have a full-fledged execution. We also expect our EBITDA to be around 12% for the full year of FY2019.

Now on the bidding activity, we will start with the road segment about future pipeline projects that we have identified, there are 79 projects under the EPC mode from NHAI, having a length of 2483 kilometers with a value worth Rs.53434 Crores for which the financial bids are to be submitted before December 31, 2018 i.e., as per the current NHAI website what is being stated. Also as mentioned during the SIPL call, there are 37 projects under hybrid annuity mode from NHAI having a length of 1712 kilometer worth Rs.35760 Crores for which the financial bids are to be submitted before December 31, 2018 and for which SIPL will put the bids for hybrid annuity going forward.

Now on the mining front, there are four projects in ore mining segment worth Rs.1236 Crores for which the financial bids are to be submitted before December 31, 2018 and in irrigation front, there are nine projects worth Rs.5007 Crores in the State of Madhya Pradesh, Karnataka, and Punjab for which the bids are required to be submitted before December 31, 2018. So this is in terms of the bidding activity. So I think the largely has been covered in terms of what the business has acquired and what the current scenario. So with this, I will conclude my opening remarks and I am very much thankful to all the participants for listening to these opening remarks and now I will request for the Q&A session. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen we will now begin the question and answers session. We would take the first question from the line of Dhruv Agarwal from Crescita Investment. Please go ahead.

- Dhruv Agarwal:** Good afternoon Sir and thank you for the detailed explanation in your opening remarks. Sir as you mentioned in the first half of the year, you have bagged orders around Rs.3130 Crores, so what do you expect the flow in the second half to be?
- Nitin Patel:** See actually even during last couple of conference calls, I have stated that the target internally was that to take almost around Rs.15000 Crores of the new business between FY2018 and FY2019. So against these we have already taken the new business worth around Rs.11700 Crores. So what we can say that at least the intention is to take at least another Rs.3500 to Rs.4,000 Cr minimum what we are targeting to take before end of the year.
- Dhruv Agarwal:** Okay and Sir do you have any idea about the last three packages of the Mumbai-Nagpur Expressway, there are still remaining package 16, 17, 18, have they been bid or when do you hear about them?
- Nitin Patel:** See actually the bidding, everything is completed. And as per my last discussion is concerned, I think the MSRDC board is about to give the approval.
- Dhruv Agarwal:** Okay. That should be out anytime soon, the last three packages?
- Nitin Patel:** Yes.
- Dhruv Agarwal:** Okay and Sir you are L1 in just one irrigation package, which is Rs.198 Crores that is it?
- Nitin Patel:** Yes that is only one.
- Dhruv Agarwal:** Okay and Sir if we compare with your peers in your first two quarters that is the first half have been fixed for any major reason for that?
- Nitin Patel:** See, I could not understand the question, can you repeat once again?
- Dhruv Agarwal:** Yes, like for the first half of the year, you numbers have been muted – like I understand that we have compared it with GST now. But then too we see your – earnings and profitability not to that level up to your competitors. So any particular reason for that?
- Nitin Patel:** No. Actually if you see out of the total order book, how much orders are under execution, which are going to be started in the Q3 and which will be started from Q4 what was already mentioned. With these even what the top line growth is almost around 9.58% for the first half, as we have mentioned that company has already achieved. For what we are of the view once this will again start, definitely this will give incremental business in terms of the execution every quarter on quarter because the large part, even if you see almost around 57% of the total order are going to be started between Q3 and Q4.

- Dhruv Agarwal:** Correct. So that is one of the reason and Sir my last thing is with an EBITDA of 12%, and we can see for your standalone business for Sadbhav Engineering can do around Rs.3900 to Rs.4000 odd topline for this year if I am not wrong?
- Nitin Patel:** Yes see that will be easily achievable with the current execution pace and the new project that we have mentioned what we are going to start that we are very sure that we will be able to touch Rs.4000 Crores and 11% is not a big challenge because the new orders are having reasonably better margin and in terms – against that the irrigation is also going down earlier projects are getting completed, exhausted. Even now we are going to see if the crude price we have better, then we will have incremental benefit in terms of the reduction in the bitumen and even this HSD and steel prices also.
- Dhruv Agarwal:** Right. So these 57% projects would contribute a very big sum in the next year, I am sure.
- Nitin Patel:** Yes. Definitely, the new projects which are going to be started, it will have a decent growth in the FY2020 also.
- Dhruv Agarwal:** Okay. That was very helpful. Thank you so much Sir.
- Moderator:** Thank you very much. Next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Nitin bhai. For the last CARE rating, they had highlighted that Rs.400 Crores of recovery is expected by September 2018 and Rs.200 Crores by December, so the number which you highlighted that you recovered Rs.243 Crores, so this pertains to the Rs.400 Crores only?
- Nitin Patel:** Yes. out of Rs.433 Crores even I have during the conference call of my Q4 of FY2018, we have stated the project wise numbers also, so out of that as I have mentioned only Rs.190 Crores is remaining. So, the reason behind is to mention that the client has released the money, the large portion has been completed and balance, we are going to get another couple of months.
- Parikshit Kandpal:** And this balance Rs.200 Crores which was expected by December 2018, any update on that like what is...?
- Nitin Patel:** December, yes... if you see the pending amount from the four or five projects, which we have already completed, we have achieved the competition certificate. So the final bill is under process, some amount has already been released, balance is going to be released by the end of December.

- Parikshit Kandpal:** But what about the debtors beyond six months in the books right now, I mean where we are still to receive payments?
- Nitin Patel:** There is hardly around Rs.30 to Rs.34 Crores I think beyond that there is no such outstanding more than that.
- Parikshit Kandpal:** Will this give comfort to the credit rating agency because I think they have been...?
- Nitin Patel:** Yes. There is no issue at all. Even the main purpose they want to see that whether the client will make the payment because the project has been completed in March, the substantial completion certificate has been received. So definitely all there were in the EPC mode, normally in our past experience also, we have seen that the EPC contracts are there. So it takes lot of time to complete the final bill and payment getting released it takes certain amount and now that has already been done and substantial amount has received also now.
- Parikshit Kandpal:** Because they are highlighted that Rs.400 Crores will come by September and another Rs.200 Crores by December. So I mean I am not able to understand this gap, so they are mentioning Rs.600 Crores and you are mentioning only Rs.443 Crores Sir.
- Nitin Patel:** Correct. See that is particularly that amount in any case our experience with NHAI is that during last 20-22 years, NHAI has never made any default for the payment and what was final bill they have released that was the only because of the what the market condition has changed actually at that point of time. So that is why rating agency has insisted further. The rest of the things are well within the control. Even all if you see the... even in terms of the payables also has come down substantially. So everything is well within the system.
- Parikshit Kandpal:** Okay. This is last question on the asset monetization in SIPL, so how flexible are, Sir I have not attended the SIPL call, but I wanted to know like whether are we ready even prepared to give a majority stake to the incoming investors in that platform?
- Nitin Patel:** Yes. Absolutely see ultimately the intent was very clear to go, definitely those who are going to create a platform, - the investor for these kinds of asset portfolio and in terms of the asset also, you can see that this is a net cash generating asset entirely. So, that way we are very comfortable and the process is going on very slowly and within control.
- Parikshit Kandpal:** By December, I think early time than December that we will have binding agreement in place something so that timeline ticking off?

- Nitin Patel:** See I can mention that the things are well within the control. The only thing is that as and when all other relevant diligence will be over, definitely, we will immediately start further binding term sheet, but we will do as early possible, what we can say now.
- Parikshit Kandpal:** What is the timeline of approximately, I mean..?
- Nitin Patel:** See that ultimately you can understand this is a very large transaction almost the enterprise value is more than Rs.10000 Crores. So that we have to see and anybody who will have a proper diligence though it is totally controlled portfolio, there is no any other legal issues, largely constructed by Sadbhav, so that all the comfort is there and also we are going to remain their in their platform. So this is what we can say but later on as and when the development will come, we will come on the platform and at appropriate time we will definitely disclose as and when that happens.
- Parikshit Kandpal:** But within FY2019, it will happen?
- Nitin Patel:** See I can tell that the as and when the things will come at appropriate numbers and that because this is obviously we cannot comment as of now on this platform.
- Parikshit Kandpal:** Okay Sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** Good evening Nitin bhai. Thanks for taking my question. Sir just wanted to get the guidance for FY2019 revenue that you mentioned. So are we looking at around Rs.4000 Crores of revenues for FY2019. Is that what you said?
- Nitin Patel:** Yes, it is almost to that extent because the way the construction pace is going to happen, this is easily achievable, what we can say.
- Vibhor Singhal:** And earlier we were adding to something like Rs.4100 Crores.
- Nitin Patel:** See obviously because if you see the appointed date, there are a couple of reasons what we are seeing that it is not so significant, but the lenders are also now very specific. They want 80% unencumbered land and we are of the view that we should always go by the what the concession agreement in the current environment. So that is why cautiously we take all the call, but we will be able to reach this level I think.

- Vibhor Singhal:** Fair enough Sir. Sir you mentioned that in the presentation that in the order book of Rs.4500 Crores, orders of Rs.4500 Crores are expected to be started in Q3 FY2019, so given that we are already 45 day into the quarter, have we started on execution on all the five projects?
- Nitin Patel:** Three we have already started and one we are going to start by the end of this month and most probably the last one maybe in the December.
- Vibhor Singhal:** And Sir Nagpur-Mumbai has started?
- Nitin Patel:** We have started the construction execution activity site has been mobilized, the equipment has been done. So construction activity has already been started, and we have even started certain amount of work in Lucknow Ring Road also. That Jodhpur Ring Road also we have started the construction of work almost I can say a large amount, even large amount of structures has been taken up and everything. Because of the election in Rajasthan the appointed date has been delayed because NHAI wants the election commissioner's approval. Need to clear the appointed date but they have allowed us to...
- Vibhor Singhal:** Right. Sure. Nitin Bhai, my last question, on the debt side you mentioned the debt is around Rs.1510 Crores at this quarter. So where do we expect this number at the end of this year?
- Nitin Patel:** See actually our endeavor is to bring it down, but what I can say that the going forward, because there is no any such requirement at SIPL, number one. Second thing at Sadbhav Engineering almost all the projects when it is getting started, we are going to get their prices are also little bit different. The cash generation seems to be decent also. Out of the new advances what we are going to say, we expect that we will be able to use almost around Rs.40 Crores to Rs. 50 Crores for the purpose of reduction of debt. And also to some extent almost around 40% to 50% of the internal accrual of the cash that can also be utilized for the reduction in the debt.
- Vibhor Singhal:** So ballpark numbers are Rs.1400 Crores?
- Nitin Patel:** See definitely we will try to bring it down also below the same, but almost because eight new projects are going to be started between Q3 and Q4. So there also we need to plan initial working capital, these all put together we will see, but good part is that our old amount which was there on the completed projects, this is coming back – and exactly, so that will be on the track, right.
- Vibhor Singhal:** Sure. And Sir just a bookkeeping question, has there been any order cancellation in this quarter? Because if I see our order book is same as the last quarter, we have included an order of Rs.1600 Crores which is the Mumbai-Nagpur and we did an execution of around Rs.700 Crores. So there seems to be a mismatch of around Rs. 900 Crores, was there some cancellation or reduction of scope somewhere?

- Nitin Patel:** No. See actually earlier order book what we have stated that was inclusive of GST. So now we have mentioned as exclusive of GST, and to the extent of even in media release we have mentioned that almost around Rs.1272 Crores of the GST amount has been reduced from the order book.
- Vibhor Singhal:** But I was talking of the Q1 order book, so Q1 order book would have been net of GST right?
- Nitin Patel:** No. that was also gross.
- Vibhor Singhal:** Okay. That was also gross?
- Nitin Patel:** Yes.
- Vibhor Singhal:** Sure. Thank you so much Sir. Thanks a lot and wish you all the best.
- Moderator:** Thank you. Next question is from the line of Kaundinya M from JM Financial. Please go ahead.
- Kaundinya M:** Sir I have a couple of questions. The first one is on interest expense, so it seems like interest expense has gone up by around 27% although 1.9 billion of debt is only at the end of quarter, so what explains this part?
- Nitin Patel:** See generally what we are of the view as compared to the Q1 because the Q1 what the borrowing was there, and what is there in the Q2 as compared to Q1, almost around Rs.1.7, Rs.1.8 Crores of the finance cost has increased and largely I can say that because of the incremental MCLR almost all the banks in the system. So around 50 to 60 basis point has increased because of the MCLR increase and also I can say that the some of the short-term facilities we have converted into the long term actually, almost as I have mentioned in my opening remark that around Rs.190 Crores. So earlier the short term the cost was little bit lesser as compared to what we are paying for the NCD issuance oldest that is only different.
- Kaundinya M:** So where do you see the standing by end of FY2019?
- Nitin Patel:** See on a quarterly basis, I can say that it will remain within say almost... full year we can say it may be around net, should be around Rs. 95 Crores to Rs.100 Crores.
- Kaundinya M:** Okay Sir. Sir it brings me to my second question. Like in SIPL call also we spoke of increase in cost, escalation due to the inflation and all and there is some stress, which has to be passed off... these items to NHAI grants and everything. So I just want to understand like how is this working with respect to our EPC projects, and how is it working HAM projects?

- Nitin Patel:** See actually the price escalation caution of the concession agreement in hybrid annuity is very clear. So based on the CPI and WPI movement, NHAI is agreeing to pay 40% of the price escalation amount during construction period and 60% of the amount will be added into the bid project cost that means remaining 60% component, it will be further increased by the WPI and CPI, the price escalation component on COD and annuity will be paid and also the interest on the capex amount will be paid on the 60% basic amount plus price escalation by NHAI. So that is also going to be reimbursed by authority during the operation period.
- Kaundinya M:** So my understanding is that of the total escalation 40% will be paid upfront during the construction phase and the balance 60% will be added to the project cost and will be paid through annuities, right?
- Nitin Patel:** Yes.
- Kaundinya M:** Okay. Sir how it will go through in our EPC project because I understand that it is a pass through back to back to the authority?
- Nitin Patel:** See normally obviously it is pass through, so the arrangement also need to be done between the EPC contractor and the sponsor of the SPV that how the payment mechanism to be made in a couple of projects where already it is under execution. This mechanism has been sanctioned by the banks even for the HAM projects we are going to achieve the closure soon. So there we have negotiated with the lenders and get the sanction of the same, that same amount can be released during construction period by the lenders in the debt equity ratio.
- Kaundinya M:** Okay. From SIPL we will receive the amount within time, but SIPL we will have to bear that extra 60% whatever you say, right?
- Nitin Patel:** Definitely because in IRR terms it is not going to make any change, because everything is being paid base rate plus 300 basis point by NHAI that is what how it works actually. So in terms of the equity, returns of the SIPL, it will be remain as it is.
- Kaundinya M:** I understood. Sir just if I can squeeze one last question, there is a spike in another income I guess this is due to SIPL dividend correct if I am wrong, or is there any other reasons for that?
- Nitin Patel:** No. That is not any SIPL-related income, it is largely any equipment sale and purchase, if it is happening, some capital gain or anything if it is happening, so that kind of income is there actually. Rest other things, it is no way connected to the SIPL.

- Kaundinya M:** Okay. So Nitin what about the SIPL dividends, which is declared in the quarter, I think there is some amount, which is declared during the quarter, so where does that flow in..
- Nitin Patel:** So that will come in the Q3 now.
- Kaundinya M:** Okay. I understood. Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Amit Saxena from One Capital. Please go ahead.
- Amit Saxena:** Sir my question is regarding in current tax margin, which was last quarter 22% and it has been increased to 36% in the current quarter?
- Nitin Patel:** See actually as we have seen during the last series of quarters said that the company is entitled to get the 80IA exemption from the projects, which has been awarded before April 1, 2017. So on all these fronts, if you see as of now by the end of September 30, 2018 after getting adjustment of the available limit of the 80IA exemption, outstanding is Rs.94 Crores is yet to be adjusted for the coming quarter's profit actually. So that is the current status. So once in current quarter itself we have adjusted also around Rs.24 Crores to Rs.26 Crores against the entitlement, against the tax liability. However the company will continue to pay the MAT, minimum alternate tax on a quarterly basis, which the margin has been generated, which company will be entitled to get a credit once even this 80IA exemption is over actually.
- Amit Saxena:** Okay Sir. So annual effective tax rate will be?
- Nitin Patel:** See for this year we do not see any tax outgo will be there, okay in the books. But actual terms we will be continued to pay the minimum alternate tax to the Income Tax department.
- Amit Saxena:** Okay. Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** A few questions on my side. Most of the questions have been answered. The first question on just clarification this pass through of inflation which SIPL needs to give you on the HAM project, are we booking this benefit in our EBITDA margin at this point of time?
- Nitin Patel:** See definitely because this is item, if we not book, then what will be the situation as and when suppose COD will happen, and in particular quarter a significant margin will come in one project or two projects suppose, so that will be erratic data actually. And even that we will not be able to explain, there will be lot of mismatches in terms of the tax and everything. So this is a pure position of the concession

agreement. So view of the auditors is very much clear even at SIPL level and SEL also that if needs to be booked on regular basis on a quarter-on-quarter.

Aditya Mongia: Sure Sir. So in the Q2 you would have in some ways booked that number?

Nitin Patel: Yes. Definitely.

Aditya Mongia: Sure.

Nitin Patel: So I think the market industry practice is also the same.

Aditya Mongia: Okay. That is useful Sir. Second thing is interest cost for the quarter is Rs.27 Crores, do you see any reason for this to come now in quarters incrementally because I was slightly confused with your Rs.100 Crores guidance on interest cost for the year?

Nitin Patel: See on an average because we are expecting that as and when the new... see working capital whatever is there that we are consistently pumping in also because as I have mentioned that these some of the amount for the earlier projects what we have received that has been utilized for the purpose of existing ongoing projects from the working capital. The new three projects which have already been started, so initial working capital has already been infused by the company and other mobilization has been taken care of without getting initial advances. So as and when that money will come that will be utilized to repay certain facilities, so that may bring down the debt and the increase cost will go down to some extent. So on an ballpark we can say that we will end at around Rs.100 Crores.

Aditya Mongia: Sure Sir. Sir another question from my side is while you and your peers are talking about a fairly large pipeline of orders coming from NHAI which is a Rs. 1 lakh Crore or so let us say in your case only Rs.85000, Rs.95000 Crores, almost everyone is thinking of not adding more than Rs.4000 Crores of orders for the remainder of the year, just trying to get a sense of whether this Rs.1 lakh Crore number, if the number which may just not get relived in terms of ordering only. Is that the thought process that you are sharing or is it that you would not want to book more than Rs.4000 Crores of orders in the remaining year, is this your internal thought process?

Nitin Patel: See there are two aspects. One is that the in EPC, our view is that there will be a stiff competition even though whatever is the scenario and in the hybrid annuity the most important part is that everybody has to see that what is their ability to arrange the equity, number one. And what kind of further projects they should take considering the current environment of the banking sector in the country because what we have seen post March there is no hybrid award has been done by authority. Even government is also very much clear view that because the banks will not be able to take a large call on these kind of funding.

So definitely everybody has to take a cautious call depending upon their internal ability to manage all these projects. And also in EPC one has to see that how much they want to become competitive in the market that will be the scenario. That is why I think everybody is taking a cautious call. Otherwise I think if one will get one or two or three projects extra, definitely everybody will take the projects.

Aditya Mongia:

Got that Sir. Sir just a related question and then I will get back into the queue. You highlighted this risk of land availability not being there and thus lenders being reluctant, how big is this issue for you at this point of time. Is it possible that there may be a marked delayed in the appointed date for your projects versus what you are considering or thinking to right now?

Nitin Patel:

See current scenario at even NHAI level is also very clear even the new chairman who has come, he is also very clear that unless and until 80% unencumbered land is there, no appointed date should be given. So as of now, what is happening all the proposals for issuing their appointed date is going up to the chairman level and it has been discussed between the members and then after it has been finalized what the current scenario is that because even the lending institutions they have also highlighted the same to NHAI and going forward the commitment from NHAI is also very clear that they would not want to go for these kind of issues after where the project has been taken off. So I think which is better for all. Definitely it will have to some extent where the project could not get 80% less, there may be some slippages. But every concessioner is trying very hard to get the things done as early as possible on the ground what we understand.

Aditya Mongia:

Any chances of any cancellation of orders on discount for you or for let us say other peers of yours?

Nitin Patel:

No. That is not there actually. During our SIPL call we have mentioned that in couple of projects, there is some de-scoping of almost in one project around 6 kilometer and one project around 5 kilometer that may happen. But it is not so significant.

Aditya Mongia:

Thank you Sir. I will get back into the queue.

Moderator:

Thank you. Next question is from the line of Nilesh Bhaiya from Macquarie. Please go ahead.

Nilesh Bhaiya:

Sir can you give me... just wanted to understand, so we have announced around Rs.1100-odd Crores of projects from NCRTC, so what is the update there because you mentioned that L1 order is only Rs.198 odd Crores?

Nitin Patel:

See actually I can tell you that these are yet to be finalized by the clients, okay. So as and when – see ultimately this has not been – I think has not been included to our order book as of now, right?

- Nilesh Bhaiya:** Okay. So are we still L1 there or...?
- Nitin Patel:** We are L1 definitely in both the projects, and as per the terms of the agreement, eligible for only one project. So that is going on. So as and when the client finalizes then only we will get the LOI and then only we will be adding to the order book.
- Nilesh Bhaiya:** Okay and Sir secondly on the margins, so you mentioned the margins have improved but my calculation suggests that actually EBITDA margins have declined year-on-year, if I compared to adjusted for GST revenues, so why our margin decline if we are doing higher HAM projects?
- Nitin Patel:** See I can tell you that if you reduce the GST component from the topline of the previous year then definitely, you have to add some resultant component of the GST into the construction expense also because it should be on the both ways. The input credit which is available because that is not being reflected in that number that is why the numbers are not comparable. Only the topline to topline you can see yes 12% is to be reduced and what is the current order the topline is there that is the exclusive 12% that only comparable. If you have to see the adjusted margin, then definitely you have to add the component of the GST which government is going to pay under the change in law circumstances that is to be added into the construction expense then after will be able to get the adjust figure of the EBITDA for the comparison purpose.
- Nilesh Bhaiya:** So can you quantify, if I would have interested the margin – I mean I just have to get the margin figure on an adjusted basis, what would have margins last year, can you quantify it?
- Nitin Patel:** See it is - ultimately what is exact resultant figure is NHAI is paying also under the change in law. So almost largely I can that the around 70% of our EPC contract, we have received the money from NHAI. We have started getting the amount for hybrid annuity also in the current quarter now. So that will continue to come. So but that expense has already been incurred to some extent there, which has not been reflected in the number that we have to take, it is a very length calculation I can say that but exact ballpark, it will not be available as of now.
- Nilesh Bhaiya:** Okay Sir and Sir again when we are reporting our revenues, so I think we have started giving it net of GST revenues from Q4, is that right? Q4 last year?
- Nitin Patel:** Yes. That is right.
- Nilesh Bhaiya:** So in that case for entire FY2018, you had given a figure of Rs.310 Crores of GST and for the Q4 itself it was Rs.140 odd Crores and for H1, we have shown a GST of Rs.135 odd Crores, so that means in Q3 in our revenues there was no GST if I back calculate the number, so why is that?

- Nitin Patel:** You see ultimately earlier that was inclusive of other taxes actually because if you see Q1 that was only the other than the GST what the all taxes excise and VAT everything was there actually, right. But Q2 onwards, it was net of the GST was there, but the result when we have declared because earlier our all the contracts, it is clearly specifies the contract value is inclusive of all the taxes actually. So when we have started figuring out and outing the claim to the client, then after we have started differentiating and working out from Q4 onwards we have putting all the numbers exclusive of the GST.
- Nilesh Bhaiya:** Okay. Sir is there any claim of GST for your FY2018 execution pending?
- Nitin Patel:** See we are yet to receive almost around Rs. 72 Crores from NHAI pertaining to the hybrid annuity projects and I think almost around Rs.28 Crores to Rs.29 Crores pertaining to the EPC from the various clients
- Nilesh Bhaiya:** Okay. Sir one last question, can you just give some insights on execution of mining orders, you see that those orders...we have got the order book but the execution has been very slow. So what is the outlook there and what kind of – can be built in forecasting the revenues?
- Nitin Patel:** Correct. See the new two orders what we have won that have started from the Q2 onwards, but Q2 normally it is because of the monsoon, not much execution has been done in the new projects. Earlier when the Amlori, which was the largest contributing revenue from the mining that has been completed on itself. So now there is any other revenue from that and from Q3 onwards we will start getting the incremental revenue from the new mining project which we have already started the execution. Even certain new equipments have also been deployed during the current quarter also.
- Nilesh Bhaiya:** Okay. So I think earlier we used to do around Rs.500 Crores of revenue from mining, so can you guide that run rate can be achieved in FY2020-2021?
- Nitin Patel:** See largely I can say that we can go around – say around Rs.350 to maximum Rs.400 Crores based on the current order book, which is to be executed I think on an average period of around 4 years from now actually.
- Nilesh Bhaiya:** Okay. Thank you Sir. That is all from my side.
- Nitin Patel:** Thank you very much.
- Moderator:** Thank you. Next question is from the line of Viral Shah from Emkay Global. Please go ahead.

- Viral Shah:** Good evening Nitin bhai. I just want the debt numbers, what will be the debt number at the end of the quarter?
- Nitin Patel:** See it is Rs. 1510 Crores at the end of the quarter.
- Viral Shah:** If I recollect correctly last quarter it was 1450, right? so the debt has increased by 50-60 Crores for the quarter on sequential basis?
- Nitin Patel:** Yes. See mainly as I have mentioned that there are a couple of reasons. One is the payment pertaining to what we can say that the – before the ongoing projects and which has have some delayed payments from the lending institutions that is one part and second thing, what the mechanism we have adopted because due to the substantial increase in the construction material prices. So to negotiate the prices, we have changed some payment mechanism and that has resulted into some incremental debt of around Rs.40-50 Crores but definitely this will give some comfort in terms of the timely supply of goods and the pricing of the construction materials to the company going forward.
- Viral Shah:** Okay. Fair enough. Sir what will be your capex for the year as a whole and what is the spend in the first half?
- Nitin Patel:** See on an average we can see that we will have... on the balance sheet that capex will not be more than around Rs.40-50 Crores for the full year even for the next year. In the mining front, if anything additional will be required that largely we will go for the operating lease kind of scenario because that is specific to the project. So when the project is over, we can hand it over to the supplier of the machines.
- Viral Shah:** And what have we incurred in first half Sir?
- Nitin Patel:** Total capex we did?
- Viral Shah:** Yes.
- Nitin Patel:** See that is almost around I can say around Rs.20 to Rs.22 Crores we have already done.
- Viral Shah:** Okay and Sir any update on the arbitration claim pending?
- Nitin Patel:** Post the Rohtak–Panipat, we have received the second order from Nagpur Seoni and the order stipulates that around Rs.72 Crores is to be paid now and remaining is to be paid in the form of the annuity over the balance annuity concession period. Second in Rohtak–Panipat authority has already issued letters to us to submit 25% of the bank guarantee for releasing the 25% payment. For 50% they have deposited the money into the high court as per the order of the high court but we are expecting that that will also

get released soon. So once we get that high court order that 50% will also get released and third one the Mumbai-Nasik the hearing is completed, so we are expecting the order anywhere before end of December for Mumbai-Nasik. Dhule-Palesner, which is the last one that the last hearing is pending and scheduled in the second half of the December. So most probably by January we will get the order for Dhule-Palesner. So that is what as of the current status.

Viral Shah: Sir what will be the amount for Rohtak–Panipat?

Nitin Patel: Rohtak–Panipat's, the award amount if Rs.104 Crores.

Viral Shah: And for Pune, Mumbai-Nasik and Dhule-Palesner Sir?

Nitin Patel: See the claim amount in Mumbai-Nasik is almost Rs.400 Crores and Dhule-Palesner claim amount is almost around Rs.60 Crores so definitely once the award will be there, then only we will be able to say that what is the final award.

Viral Shah: Fair enough Sir. Sir just by December we would expect around....?

Moderator: Excuse me Mr. Viral Shah, I am sorry to interrupt because you are inaudible on call.

Viral Shah: So Sir in terms of Rohtak–Panipat, Rs.100 Crores and Nagpur Rs.72 Crores, so by December you would expect around Rs.172 Crores of additional inflow, is the understanding correct?

Nitin Patel: 75% of the same we can say safely, okay remaining 25% if NHAI challenges, so definitely 25% will receive after the high court order.

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

Moderator: Thank you. Next question is from the line Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Sir Just wanted to understand as to what do you think will be the growth guidance for FY2020? Given the fact that you are seeing a robust order book, if you can give us some insight on that?

Nitin Patel: See considering the current order, we can say that the FY2020 we should have at least 18 to 20% of the growth as against the FY2019. So that is based on the current order what we get.

Ashish Kumar: Okay. Thanks a lot Sir. That helps. Thank you. And wish you all the best.

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

- Aditya Mongia:** Yes Sir. Sir just if you could give a sense of what is the annual rate of maintenance capex that you end up spending to kind of maintain the equipment that you have?
- Nitin Patel:** See on an average I can say that it depends upon the every item, see ultimately in our case what is that every equipment we are not owning on the balance sheet, so for highways execution all the key equipments, we are owning the company and it is being maintained by our team, our setup, all employees are there for these kind of work. And based on all the work, we are giving on a certain measurement of cubic meter basis and even in mining also I can say that the equipment what we are owning, the maintenance cost maybe within the range of around say 8% to 10% actually of the total revenue. But in the road sector it depends upon which kind of work it has been executed on every quarter.
- Aditya Mongia:** Sure. Sir when you giving this number of Rs.50 Crores capex that includes maintenance capex or it does not?
- Nitin Patel:** No. That is a pure capex actually so maintenance is something different, that will come post when the machinery and everything it is there, though maintenance generally it is not the capex item for us, largely it is a revenue. We are booking it as expenditure only.
- Aditya Mongia:** Got that Sir. Thank you Sir. Thanks a lot. Those are my questions.
- Moderator:** Thank you. Next question is from the line of Sriram Kumar from Spark Capital. Please go ahead.
- Sriram Kumar:** Thanks for the opportunity Sir. I have a bookkeeping question. Can you please provide project wise order book without GST component because now that you have changed to reporting without GST component, it would be easier for us to do that?
- Nitin Patel:** Actually I can say that as of now, complete all the details is off hand with me, but if you see the media release we have tried to put the new projects which are going to be started that in Q3, amount is Rs.4593 Crores that consist of the five projects mainly Mumbai-Nagpur, Lucknow Ring Road, Jodhpur Ring Road, Bhimasar-Bhuj and Kandla Port and the second one is the Rs.3325 Crores that is Kim Ankleshwar, Vizag port, Tumkur-Shivamogga, Gadag-Honali these four projects and apart from that these there is a series of contracts in highway sector and road sector, I can give the details but often if you require we can send through the mail also, that is not an issue. Because as of now, off hand everything is not available.
- Sriram Kumar:** Sure Sir. Thank you. That is it from my side.

- Moderator:** Thank you. We would take the next question from the line of Jiten Rushi from Capital Market. Please go ahead.
- Jiten Rushi:** Sir just a few questions from my side. Sir what are the irrigation projects – Sir the order backlog of the irrigation projects, so when do we expect the project to complete like that is Rs.352 Crores of order backlog?
- Nitin Patel:** See now largely only two main major projects in Madhya Pradesh, it is pending. So we expect that by end of this year, we will almost exhaust everything. Remaining some small work ... we can say that distributory kind of work, so where the land is not being handed over to us. So that component only may remain pending. Rest of the work I think will be over by the end of the year.
- Jiten Rushi:** Sir what would be margin in these projects as against the L1 project of irrigation, we have right now?
- Nitin Patel:** See where we are L1 that is something different because it is altogether as compared to the client estimation, it is almost around 20% and above, we have won the project but normally we can say around 12% EBITDA will be able to make.
- Jiten Rushi:** So that is for the current order book...?
- Nitin Patel:** No. Not current, I am telling, the new project I am mentioning. The current I do not see there will be margin, no more than 4 to 5% will be there.
- Jiten Rushi:** Okay. so Sir just I think on the margins, what was the BOT and EPC margins we could make now going forward?
- Nitin Patel:** See normally we can say that the HAM, the margin will be within the range of around say between 12 to 14% I can say. And in EPC, it will be around I say 11-12% it will be...as of now based on the orders what we are having that is generally I can say.
- Jiten Rushi:** Mining also similar Sir, mining also 11%?
- Nitin Patel:** Mining it is... see on EBITDA terms, it will be around 15-16% as of now because old projects are coming to the completion state. New projects what we have that is almost within the same range of 16% of the EBITDA we can say.
- Jiten Rushi:** Sir what would be share of the old projects in the order backlog of mining?

- Nitin Patel:** See hardly out of the total, almost around Rs.800 Crores and all are the old one and remaining all are the new one.
- Jiten Rushi:** So the old one is lower margin right, 10% kind of I just say?
- Nitin Patel:** Around 12 to 14%, we can say.
- Jiten Rushi:** Okay Sir. That is it from my side. Thank you. All the best.
- Moderator:** Thank you. We would take the next question from the line of Pranav Mehta from Equirus Securities. Please go ahead.
- Pranav Mehta:** Yes. Thank you Nitin bhai for taking my questions. Sir just wanted to understand on the land acquisition status for order projects where appointed date has not been taken, that was one thing and other thing is can you give the breakup of the mobilization advances yet to be received for all the projects?
- Nitin Patel:** See first of all the land – the projects were we have not yet taken the appointed date, Jodhpur Ring Road, we had more than 90% of the land in the hand. In Bhimasar-Bhuj we have yet not crossed the 80% but the process is very fast and we have seen on the ground that the execution may not be the challenge, if you take the appointed date by end of the December that is what we can say and the rest other projects Vadodara-Kim, I think almost around 70-75% land is there in the hand, Tumkur-Shivamogga, there is a lot of gaps around hardly around 55-56% of the land is there in the hand. Vizag port, the land is more than 80% is available, but there is some issue pertaining to the forest clearances there. Once it is there I think that will be through actually. So that is largely what I can say. And Honali to Gadag that is one kind of state highway project only so there is no much land requirement. The road is to be build alongside the existing road only so that is in terms of the land and in terms of the outstanding advance, if you see the Jodhpur Ring Road is around Rs.97.5 Crores that is Sadbhav Engineering is yet to get. Total advance will be higher, but EPC component is Rs.97.5, Vizag Port Rs.42.1 Crores. Lucknow Ring Road 98.10 Crores, Bhimasar-Bhuj is Rs. 85 Crores, Tumkur-Shivamogga is Rs.78.4 Crores, Kim-Ankleshwar is Rs.112.50 Crores. That Mumbai-Nagpur it is Rs.162 Crores and Honali-Gadag is almost around say Rs.90 Crores that is largely I can say that all put together becomes around Rs.775 Crores.
- Pranav Mehta:** Sure Sir. Thank you very much.
- Moderator:** Thank you. We would take the next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

- Parikshit Kandpal:** Sir what is the total equity requirement of the HAM projects?
- Nitin Patel:** See based on the current debt equity ratio what we have achieved, so total gross is Rs.1330 Crores so out of which, till now we have already infused closer to Rs.400 Crores actually so we can say almost around Rs.930 Crores is still pending.
- Parikshit Kandpal:** And to start the HAM project this year as you have guided on the slide, so how much you need to invest in 2H out of this Rs.930 Crores?
- Nitin Patel:** See total put together I think we will require early around Rs. 200 Crores to Rs. 210 Crores.
- Parikshit Kandpal:** In 2H?
- Nitin Patel:** Yes, second half.
- Parikshit Kandpal:** Next year? in FY2020 and FY2021 also if you can give how much will be there?
- Nitin Patel:** See next year it will be almost around Rs.300 or Rs.300 Crores odd and rest is completely in FY2021.
- Parikshit Kandpal:** Okay Sir and in 1H how much we have been infused equity, 1H FY2019?
- Nitin Patel:** In first half, we have infused almost around Rs.60 Crores.
- Parikshit Kandpal:** Okay and Sir what is the SPV debtors for SEL as of now in the total debtors of Rs.1500 Crores?
- Nitin Patel:** See largely I can say that the – because it constitutes three, four different, different components, one is the executed work already certified number one. Second thing the GST component what we are supposed to get and third one is to some extent in some of the SPV, the price escalation component is altogether. So I think the related part the outstanding as of now it is around Rs.200 Crores, so hardly we can say that all put together may be around within the same range, all from the SPVs only.
- Parikshit Kandpal:** So with regards to the HAM projects, which are under execution so we are all going as per the milestone or have we missed any milestone in any of the projects?
- Nitin Patel:** See one project that is Rampur-Kathgodam, the package 2 where the land was an issue earlier, so some slippage was there but the suitable extension of time has already been granted by the authority for the same. And rest I think we will be able to complete within the timeframe.
- Parikshit Kandpal:** And K-SHIP project, when do we expect to sign agreement or has the agreement already been signed?

- Nitin Patel:** No. That we are expecting that within a say around couple of weeks client will call us to close because last week there was a conversation that they have cleared all the things. Now they may call anytime to sign because KNR has also to sign the same agreement so we both are trying to get it through.
- Parikshit Kandpal:** But the land acquisition is less than 50% right, it is 55-60%...?
- Nitin Patel:** Actually that is state highway kind of projects. So not much challenge will be there because existing route only needs to be widened. So I do not see there will be bigger challenge in terms of getting the land.
- Parikshit Kandpal:** Okay Sir. Thank you.
- Moderator:** Thank you. We would take the next question from the line of Debashish Majumdar from Edelweiss. Please go ahead.
- Debashish Majumdar:** Hi Nitin bhai. There is only one question I have. For FY2020, earlier we have spoken about maybe reaching somewhere between Rs.5300 to Rs.5400 Crores top line now considering all the major HAM projects will be under execution. Where is currently the possibility, are we still standing at Rs.5300 or Rs.5400 or cutting that guidance down?
- Nitin Patel:** See actually in terms of the schedule of completion, definitely we have to achieve that rate. But considering the cautious view and considering the current environment of the financing market as well as the lending institutions' view and also the authorities now they are also coming on the ground that they without 80% of unencumbered land, no appointment date will be given. We are of the view that we will be able to achieve Rs.5000 Cr without any hurdles but above that it may be clearly stable but as of now we can reiterate that we can go with the same Rs. 5000 Cr numbers will be reasonably okay.
- Debashish Majumdar:** Okay Sir. Thank you very much Sir.
- Moderator:** Thank you. Ladies and gentlemen that seems to be the last question for today. I would now like to hand the conference over to Mr. Nitin for his closing comments.
- Nitin Patel:** On behalf of Sadbhav Engineering, I am very much thankful to all the participants for taking their valuable time to understand the business of the company for the Q2 FY2019 and H1 of the FY2019 and the way forward how the business has been lined up. So as we have mentioned the company's view is very clear that in terms of the execution, all the projects are well within the track given the going forward the focus will be clearly on the balance sheet because that is more important aspect in terms of the current environment for catering the new future growth of the company, and that is what I would



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like to convey and also we are thankful to Edelweiss for organizing this conference call for the company. Thank you very much to all.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Securities, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines now.