



“Sadbhav Engineering Limited  
Q4 FY2018 Earnings Conference Call”

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**Moderator:** Good day Ladies and Gentlemen, and welcome to the Sadbhav Engineering Limited Q4 FY2018 earnings conference call hosted by SBI Caps 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 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 Ms. Rita Tahilramani from SBI Caps Securities. Thank you and over to you madam!

**Rita Tahilramani:** Thank you Mallika. Good evening everyone, On behalf of SBICap Securities, I welcome you all to Q4 FY2018 and FY2018 earnings conference call for Sadbhav Engineering. Today from the management, we have with us Mr. Nitin Patel - Executive Director and CFO. Without wasting much time, I would like to hand over the call to Mr. Nitin Patel for his opening remarks followed by which we will have a Q&A session. Over to you Sir!

**Nitin R. Patel:** Thank you very much. Now on behalf of Sadbhav Engineering Limited, I warmly welcome all the participants and thank you very for taking your valuable time for the earnings call for the quarter ended and full year ended, March 31, 2018. I am sure you must have seen the media release provided to the stock exchanges yesterday by the company. Now I will first start with the financial numbers, then we will discuss the business outlook and the other pipeline of the bidding and how the company is positioned.

The income from operations for the quarter has grown by 6.93% to Rs. 1104 Crores as against Rs.1033 Crores of the last year. EBITDA for the quarter has grown by 13.16% to Rs.124 Crores against Rs.109 Crores of the last year and profit after tax for the quarter has grown by 2.41% to Rs.69.86 Crores as against Rs. 68.21 Crores of the last year. Now, the EBITDA margin for the quarter stood at 11.23% against 10.61% in same period of the previous year as we have discussed in earlier calls also EBITDA margin will improve further because of the better margin levels in hybrid annuity projects.

Our income from operations for full year of FY2018 has grown by 5.56% to Rs.3505 Crores as against Rs.3320 Crores of the last year. EBITDA for full year of FY2018 has grown by 16.74% to Rs.415 Crores as against Rs. 356 Crores of the last year and profit after tax for FY2018 has grown by 17.47% to Rs.220.66 Crores as against Rs. 187.85 Crores of the last year. Now the growth in execution during FY2018 was mainly driven by the transport segment which has grown by 15% on year-on-year basis. However within transport segment, it has been led by the hybrid annuity projects in FY2018 as compared to the EPC project in FY2017, HAM projects will definitely continue to drive

the execution in FY2019 and FY2020 depending up on the basically the order book how it has been positioned.

The EBITDA margin for FY2018 stood at 11.84% as against 10.71% in the same period of the previous year. Margin improvement is because of completion of lower margin irrigation projects and increase in execution of hybrid annuity projects. The debt as on March 31, 2018, stood at Rs. 1485 Crores down by Rs. 292 Crores as compared to March 2017 debt number of Rs.1777 Crores. We expect this will come down further due to receipt of money in project where we have applied for COD and final payment is awaited.

In case of Yamunanagar-Panchkula of package I and II, the amount outstanding is Rs. 80 Crores where we have already completed the job and completion basically has applied for. The larger amount is there in the Eastern Peripheral Expressway package I and II, the amount outstanding is Rs.170 Crores. The Mysore-Bellary which we have already received the commercial operation certificate even first payment of the annuity has also been received from the client by the balance change in scope and the other outstanding of the EPC is the pending amount is Rs. 75 Crores.

Also there is one project in Managuli-Devapur of the Government of Karnataka which is again a World Bank funded project the outstanding amount is Rs. 38 Crores as of March 30, 2018 and then the Maharashtra Border Check Post the outstanding amount payable to Sadbhav Engineering is Rs.70 Crores as of March 31st. So if I add the GST amount of Rs. 309 Crores for full year then the income from operations during FY2018 stood at Rs.3814 Crores. At the start of the year we had provided a revenue guidance of Rs.3800 Crores which has been almost met through during the year, we had reduced the guidance in last quarter also to the tune of Rs. 3700 Crores but we have met our earlier guidance of Rs.3800 Crores on back of strong execution of the hybrid annuity projects.

Also in relation to order intake guidance for FY2018 we had provided a guidance of Rs.7000 Crores for FY2018 while we have closed the year with Rs. 8593 Crores of the new orders at a gross value. The breakup is also as follows in transport EPC segment, we have received order of Rs. 2048 Crores. In transport hybrid annuity project segment, we have received order of Rs. 5730 Crores and in mining, we have received Rs. 815 Crores of the orders.

Now in relation to FY2019 revenue guidelines, based on the current order book and the bidding pipeline, we expect that the FY2019 revenue to be around Rs. 4100 Crores excluding GST and EBITDA margin to be approximately 12% for the whole of the year. So the MAT credit outstanding as on March 31, 2018 stands at Rs.103 Crores and hence we expect that the effective tax rate for FY2019 shall be rupees nil. Considering very long bidding pipeline from NHAI more than also various

state authorities and more particularly in highway sector, we expect that order inflow to be around Rs. 8000 Crores for the FY2019.

Now on the execution front the top five projects by execution during Q4 of FY2018 have been disclosed in the media release. We have completed the prestigious and challenging work of Eastern Peripheral Expressway package I and package II within the 20 months as compared to the schedule timeline of 30 months and also it has been recently inaugurated by Honorable Prime Minister of the Country. The construction in seven hybrid annuity projects where we have received the appointed date is going very satisfactorily and have received the appointed date for Waranga-Mahagaon project as on May 21, 2018.

Now the order book as on March 31, 2018 stand at Rs.13249 Crores at a gross value which translates to an order book to sales ratio of 3.47 times of FY2018 revenue. NHAI awarding activity has picked up from the start of January though it has slowed down a bit from April; however we expect that NHAI will award more than Rs.100000 Crores worth of the work in FY2019 itself, hence we are quite confident that the all put together we will achieve the full year target of current year of Rs.8000 Crores.

On the bidding activity, we will start with the road segments there are five projects in EPC segment from MSRDC that is Mumbai-Nagpur Expressway of length 283 kilometers worth Rs.10150 Crores for which bids have been submitted but are yet to be opened up. We are expecting that the bids will be opened on 31<sup>st</sup> May that is tomorrow.

About future pipeline, these projects are identified by the Sadbhav basically there are 26 projects under EPC mode from NHAI of length 949 kilometers worth Rs.1832 Crores for which financial bids are to be submitted before July 31, 2018. Also there are 47 projects under hybrid annuity mode from NHAI of length 2183 kilometers worth Rs.44604 Crores for which the financial bids are to be submitted before 31<sup>st</sup> of July and for which the SIPL will put the bid for these all hybrid annuity projects. On the mining front, there are five projects of overburden removal worth Rs.1009 Crores for which the financial bids are to be submitted before 31<sup>st</sup> of July and in irrigation front, there are five projects worth Rs.6312 Crores in Madhya Pradesh, Gujarat, Rajasthan for which bids are required to be submitted before 31<sup>st</sup> of July.

So I think this is what I would like to convey in my opening remarks and I will be – I am very much thankful to all basically for listening this opening remarks and I will request to start the Q&A sessions for the quarter and year ending. 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 Utsav Mehta from Ambit Capital. Please go ahead.

**Utsav Mehta:** Sir two questions, first one on the land acquisition status, for most of the HAM projects that are not yet started or where we do not have appointed date, what is the current status of land acquisition?

**Nitin R. Patel:** Where we are yet to start the basically work and get the appointed date, so there are the five projects. So if I go project-by-project, the first is the Vadodara Mumbai Expressway package V which is between Ankleshwar to Surat. So there almost around 100% of the land has been acquired by NHAI and this is the completely Greenfield project eight-laning of the project. So there is no problem once we achieve the closure, we can immediately start the basically construction.

**Utsav Mehta:** And the 100% land is under 3G so it is fully done including the land?

**Nitin R. Patel:** That has been fully done actually. For this project actually earlier NHAI has decided to bring it under the whole project actually so lot of ground level activity has been completed much earlier by authority but because of the various reasons this got delayed by more than two years it is more or less like the what we have seen in the Eastern Peripheral Expressway actually. So this is the one part. Second part is the, this Jodhpur Ring Road. So in Jodhpur Ring Road more than 90% of the land is already in the hand. So we are on a verge of achieving that closure so we expect that by third week of June, we will be in a position to declare the financial closure for the project and schedule basically appointed date is in the month of July. So once we get it we will be starting the work also in Jodhpur Ring Road. We already started the initial activity of the ground work there in the project. The third one is the Bhimasar to Bhuj. So there almost around 72% to 74% of the land is available. So still there is a period of another four, four and a half months to achieve the closure. So I think by the time we will complete, we will be able to cross through the market of 80% in that project. The fourth one project is the Tumkur-Shivamogga, so in Tumkur-Shivamogga again around 75% to 77% of the land is in the hand. Again we had a timeline of around four to four and a half months and we are quite okay to get it through and the last one is the Visakhapatnam Port Road which is a very small project of 12 kilometers, but it is on the existing carriage way only. So we do not see any other challenge in terms of the land acquisition. So once we achieve the closure, we can start the work in Visakhapatnam Port Road. So this is what we can contemplate for these five projects.

**Utsav Mehta:** Sir very useful. So largely as far as what I can understand, you expect appointed date latest within the next four or five months for most of these projects as soon as FC is done?

**Nitin R. Patel:** In Q3 basically, we will be able to start the projects, so we do not see any other slippages because largely what we have seen that during the last year if we have seen that till December the lot of bids

got delayed and extended. The main reason was that the NHAI was basically is very much behind getting the land in the hand. So suddenly basically in Q4 everything has been shooted actually, so now lot of things possibly and we had also done the lot of diligence before submitting the bid.

**Utsav Mehta:** So sir does that mean that just as a corollary does that mean that incremental bids or BRA from NHAI within that is the land that they are providing still up to the mark or do you think there is now gradually I mean that inventory is now running out?

**Nitin R. Patel:** See actually in the new all the bids basically the land acquisition status if we see on a number of projects basically is not that much basically what we have seen in the projects which has already been bid out during the Q4 of the last year, but obviously NHAI and they are very much behind and the work has been the way it has been segregated so their task is to complete the acquisition as early as possible and award basically before the December I think the lot of bidding activity will be over.

**Utsav Mehta:** And Sir my second question was on working capital. On an average Sir once these HAM projects start off how much... how many days of receivables do you think you will have to run for these projects?

**Nitin R. Patel:** Actually if we see as I have... that is the reason I have mentioned in my opening remark that the amount which has been basically yet to receive on the projects which have got completed so the largely you have seen that the receipts from the EPC projects and even during our various calls, we have mentioned that there is a amount is getting stuck in the working capital front but in hybrid annuity, we are of the view that no large amount of working capital will be stuck except there will be some variation of the bigger amount so we do not envisage that all of the projects there will be variation, obviously couple of projects there maybe some variation but based on the client's requirement and basically the conditions of the concession we have to adhere to so only to that extent it will be required but largely it will go down over the period of time the working capital requirement. The main requirement what we are envisaging it is a non-fund based basically facilities across basically because lot of performance securities and also the large amount of mobilization advance is due and pending basically so everything needs to be arranged in this year itself actually so that will be the larger requirement.

**Utsav Mehta:** So to that extent your finance cost which is the noninterest finance cost could go up.

**Nitin R. Patel:** See definitely even you can see in this Q4 numbers also because of the series of bidding has been done by the company in Q4 itself we have submitted almost around 38 to 40 bids actually from the company's perspective and so that has also resulted into some extent and this cost has gone up and also now the basically we are in a process of basically submitting the performance guarantee almost

in all the projects where we have basically achieved the financial closure or basically we have signed a concession agreement. So this requirement will continue to go up.

**Utsav Mehta:** And sir just one...?

**Moderator:** Sorry to interrupt Sir, I would request you to return to the queue for any followup.

**Utsav Mehta:** Sure I just made one data point I just need to know what are the customer advances outstanding as of FY2018 that is all. Sir mobilization advance as of FY2018?

**Nitin R. Patel:** See outstanding mobilization advance basically is almost to the tune of around Rs.130 to Rs.134 Crores as of now.

**Utsav Mehta:** Okay Sir thank you so much for your time.

**Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

**Giriraj Daga:** Hello team congrats on decent performance. A couple of questions first on the macro side you have about like Rs. 60000 Crores worth of order it expected before July on the road side, on transport side of it and there is some about 8000, 10000 on the other mining and the irrigation side of it, total makes 70000 and still but we are talking about order inflow of 8000 Crores for the full year, are we like this being very conservative or we just like looks like a order inflow in this year on the macro side of it, it is going to be done more than Rs. 100000 Crores. So what is your take on there?

**Nitin R. Patel:** See two things we are keeping in mind basically to answer your question, one thing is that the obviously the number of bids are very high as compared to the so many years of the previous figure because if we can say that the last year and more particularly Q4 which is in the history of the basically Indian Highways, it was a highest biggest has happened even more than a lakh Crore of the bids has been called by the NHAI and MoRTH during the last year itself actually so we expect that this will further go up actually but in our company perspective, we want to go only on those bids where we can mitigate our margin requirements number one, even by keeping the balance between the EPC and the hybrid if we can maintain and basically improve the margins also. We will not be much that behind and aggressive for getting the job but parallelly we will see that the margin should also come while we have take the job.

**Giriraj Daga:** Okay so our focus would be on margin the other than the volume?

**Nitin R. Patel:** Exactly.

**Giriraj Daga:** Second on the revenue you gave the guidance of 4100 and looking at the order inflow this year when we will see the big jump up in the revenue. Would it be FY2020-2021, where we will see more than 20% growth coming in, in EPC side of it and it is already three and a half time and the executable time is about 24 months for the HAM project so should it be fair to assume that the FY2020 and 2021 will we having 20% plus growth.

**Nitin R. Patel:** See actually frankly speaking the guidance what we are basically trying to give basically on a little bit conservative basis keeping in mind that the hybrid annuity projects, five of the hybrid annuity projects one we get the appointed date for the same number one, and the new business what we are targeting that is almost around that it should be more basically business from the EPC front for this year itself. So keeping in mind, once we are closer to getting the appointed date, we will be able to give the clear guidance for the FY2020 and 2021 because our view is that they considering the way the order is there in the company, the way the execution schedule is there actually and the way basically we would like to add the new business so definitely over the basically the 2020 and 2021 could be very significant but definitely the timeline, we will come on a once we are closer to the appointed date.

**Giriraj Daga:** Last thing Sir capex for FY2019 and preferably if you could throw some light on FY2020 number capex?

**Nitin R. Patel:** See FY2018 we did almost around Rs. 100 Crores to 104 Crores of the capex but in this year we are again basically guiding that almost around Rs. 90 Crores to 100 Crores of the capex... will depend upon basically the business once we get it but almost we expect that it should be within the range of again same Rs.80 Crores to Rs.100 Crores.

**Giriraj Daga:** Thank you all the best.

**Moderator:** Thank you. Next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal:** Good evening Nitin bhai thanks for taking my question and congrats on great set of numbers. Sir my question is basically on the debt number so the debt has definitely come down from the Rs. 1700 Crores level that it was last year at around Rs. 1482 Crores as you just mentioned but if you see on the last quarter our debt was around Rs. 1400 Crores and we were actually targeting around Rs. 1300 Crores of debt by the end of this year. So do we see that as kind of let us say some sort of delay in getting the money back from SIPL or maybe delay in some mobilization advances and how do you see this debt number going over FY2019?

**Nitin R. Patel:** See actually your question is completely right and we have also indicated you and I have also during last call also mentioned that we will be ending at around Rs. 1300 Crores. So we end up at Rs. 1484

Crores actually, so that is why I have tried to give the one justification that the five of the projects where we have already completed and applied for COD, almost more than Rs. 400 to Rs. 450 Crores amount has been stuck actually. So I think within this quarter and next quarter we will be able to get this money back so this will definitely bring down the debt level and plus by adding the new requirement of the working capital put together, we are of the view that the at least we will be able to bring it down by another Rs.200 Crores basically for this number actually, so within at least two to three quarters.

**Vibhor Singhal:** So you are looking at around 100 to 200 Crores of debt reduction in the next two to three quarters?

**Nitin R. Patel:** Exactly and over and above that if you see in media release we have also mentioned that we are yet to receive at Sadbhav Engineering level around Rs.588 Crores of the mobilization advance, so practically this entire money will not be required for the basically the initial ramping up of the work actually and also the considering the capex requirement as we have guided actually, so also the substantial part of that can also be utilized for the purpose of the reduction the current debt.

**Vibhor Singhal:** So this mobilization advance also carries interest rate right?

**Nitin R. Patel:** Yes it is at a bank rate so that is substantially lower than what we are paying to the lenders.

**Moderator:** Thank you. Next question is from the line of Rohin Agarwal from Avenar Capital. Please go ahead.

**Rohin Agarwal:** Sir my question that in regards to the new HAM projects that are currently in the process of achieving financial closure so just want to understand sir how many projects currently are there which are pending for FC and what is the total amount of debt in these projects?

**Nitin R. Patel:** See actually there are the five projects that are pending for FC obviously the because out of five one as I have mentioned that the we are very nearer to basically getting the sanction basically from the latter, the remaining four if I see that the first is this Visakhapatnam Port Road where the I think the debt requirement will be hardly around Rs.260 Crores then the Bhimasar to Bhuj where the debt requirement will be hardly around Rs.540 Crores and Tumkur-Shivamogga package three that is again Rs. 530 Crores to Rs. 540 Crores and this Vadodara Mumbai the debt requirement will be to the tune of around Rs.750 Crores. So I think all put together around Rs. 2000 Crores of the debt to be tied up in all ports.

**Rohin Agarwal:** And Sir currently we have seen historically PSUs have been sort of leading the funding rounds in infra project but currently we see that most of them are under PCA, so Sir what is your outlook in terms of likelihood of these projects facing any challenges in terms of financial closure?

**Nitin R. Patel:** See obviously the number of banks those who are interested in funding has gone down substantially almost 50% of the bank is not there but the banks who are already there we are getting the very positive basically response from the same and even I can tell that the project what we recently achieved the closure and the syndication where it has been happened. So we have received the sanction from at least three to four public sector banks as a participation and going forward we have been even out of these four projects, two of the projects are going to be underwritten by the public sector banks only and the two basically are going to be closed by the private sector banks.

**Rohin Agarwal:** And Sir just one last question recently we have seen that the interest rates have been firming up in the last one or two months so what is the impact on the pricing of these HAM projects and what is your guidance in terms of what will be the sort of funding cost in these HAM projects, the all-in cost?

**Nitin R. Patel:** See normally at the time of we generally take a factor of safety in all these hybrid annuity bid and this is to the tune of around 75 to 100 basis points considering in the mind that the construction period is two to two and a half years so definitely the economy may move... swing to that extent actually so average cost when it is go on to the within that range we do not have any other impact if that goes above the same so definitely we are of the view that the when the bank rate also will go up from the basically RBI perspective so accordingly our repayment when we will start getting it an annuity repayment so we will also get basically some cover up in form of the interest basically from NHAI also.

**Rohin Agarwal:** Sir what will be the funding cost for these new projects if we can know that?

**Nitin R. Patel:** See the range we are basically as of now all the seven projects what we have closed that is 9.25% for all the projects but considering the cost has gone up, we are seeing the it should be around 15 to 20 basis points basically, it may further get impacted depending up on the how it is getting closed considering all other terms in terms of the debt equity as well as all the basically the repayment parameters and what we basically are bringing additional comfort in the SPV so all put together it depends up on the same.

**Rohin Agarwal:** Thank you so much Sir.

**Moderator:** Thank you. Next question is from the line of Dhruv Agarwal from Crescita Investment. Please go ahead.

**Dhruv Agarwal:** Good afternoon Sir and congratulations on a good set of numbers. Sir if you could give me I failed to capture the order book breakup of Rs. 13249 Crores which you have. So if you could give me that again sir please.

**Nitin R. Patel:** If you see and we have also basically tried to put into the media release but I can again basically mention here the transportation sector order book is Rs. 10775 Crores out of which the hybrid annuity and the BOT put together is Rs. 8138 Crores, the EPC is Rs. 2637 Crores, the irrigation outstanding order book is Rs. 454 Crores and the mining sector outstanding is Rs. 2020 Crores.

**Dhruv Agarwal:** And can you give the breakup between the HAM and the BOT projects.

**Nitin R. Patel:** See the almost the large part is the HAM actually so but BOT I think there is no other... except for a few almost around say Rs. 10 Crores to Rs. 15 Crores of one small work of this to Maharashtra Border Check Post which is pending, rest everything is hybrid annuity now.

**Dhruv Agarwal:** Hybrid annuity is almost the same amount as Rs. 8050 Crores or Rs. 8100 Crores I assume.

**Nitin R. Patel:** Exactly.

**Dhruv Agarwal:** Okay Sir that is a big amount and Sir I guess all of the projects would be executable in the next 24 to 30 months correct?

**Nitin R. Patel:** Sure see all the projects which has already been started so we are expecting that at least three projects... four projects will get over during FY2020 itself, again 2021 and 2022 these all 12 will be over.

**Dhruv Agarwal:** Okay all will be over. And Sir regarding the pipeline by NHAI which you said, you said HAM is Rs. 45000 Crores which have to be... bids have to be submitted before July 31, 2018 correct?

**Nitin R. Patel:** Correct.

**Dhruv Agarwal:** Mining is Rs. 1009 Crores and irrigation is Rs. 6312 Crores.

**Nitin R. Patel:** Correct.

**Dhruv Agarwal:** And for EPC what was the figure Sir?

**Nitin R. Patel:** EPC the numbers basically I have that is Rs. 18032 Crores total 949 kilometers, 26 projects.

**Dhruv Agarwal:** Okay that is EPC; HAM is Rs. 45000 Crores, mining Rs. 1000 Crores and irrigation 6312 Crores?

**Nitin R. Patel:** Correct.

- Dhruv Agarwal:** Okay and this is all of this before July 31, 2018?
- Nitin R. Patel:** Currently as of now all the dates which is mentioned in the respective websites of the client.
- Dhruv Agarwal:** So as of now we can say that HAM is more vibrant than the EPC projects from the ministry side as well?
- Nitin R. Patel:** See definitely even last year also almost we have seen around 65% of the total basically our bidding has been done in the HAM only, so rest is only the EPC and two or three projects under the BOT except for one large which has gone under the TOT by NHAI.
- Dhruv Agarwal:** Okay that was my Macquarie deal which happened correct?
- Nitin R. Patel:** Correct.
- Dhruv Agarwal:** Okay Sir. Thank you so much.
- Moderator:** Thank you. Next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Sir just want to know the status of some of the EPC projects you discussed about the land status and execution status of the HAM, how about the EPC projects especially on the road side and the mining side, which you got during the year if I have to name a few the Sayla-Bamanbore, the Bagodara-Limbdi on the road side and in the mining side, the two orders which you had got. So how is the whether the work has commenced in those projects or not?
- Nitin R. Patel:** Correct see the two projects in Ahmedabad-Rajkot section the work has already been started in the entire state actually so that is getting six laned from the four lane actually. So there not significant issue except for utility shifting everything is well within the control actually. So there the work has already been started in both the packages. The second one in the EPC is the Lucknow Ring Road actually. So that is almost around Rs. 991-Crore job actually what we won. So the construction will start basically after one to one and a half month actually we just three days back we have signed contract agreement with NHAI for this project. So we had another basically time period of at least one, one and a half month to mobilize and get the appointed date for the project and the small project which is on the Kandla Port that is Rs. 170-Crore job actually so this entire job will be over in this year. The work has already been started there in a full swing. The time period itself is nine months so this 100% will be over in this year itself actually. So expect for Lucknow Ring Road because Lucknow Ring Road some of the land pocket is yet to be acquired by NHAI but according to our assessment, hardly it is around 20% to 25% of the land is pending, rest land is available actually.

**Ashish Shah:** So you are confident that in the next one and a half two months this land will be available and you will be able to start work?

**Nitin R. Patel:** Exactly, see in EPC, we do not see any other challenging even 20% is pending, we will start the work actually because there is no any equity commitment and everything the pressure will be there on the authority, so better we mobilize, start the work whatever land is available let us complete and whatever balance is there, we will continue to push basically for getting the land in the hand.

**Ashish Shah:** Sure, so how about the two mining projects whether we have started work on that?

**Nitin R. Patel:** In mining that is won.... that is from the Western Coal Field, so earlier also in past at least four, five years back we have already completed the... we have done the mining activity there and it is pure contract mining so the work has been already been started there and obviously initial three months, we were falling short of around 20% of our target basically but now the target has started picking up because 100% of the mobilization is over there and we expect that we... just within another three, four months, we will be at power and then continuously we will be able to get it through. It is a well defined and already operated and continue ongoing mine actually where we have to carry out the overburden removal work.

**Ashish Shah:** So in terms of your total guidance of 4100 if you can just split that into how much we expect from mining and irrigation and the balance, we will assume to be from transportation?

**Nitin R. Patel:** See actually from mining, we are expecting around Rs. 350 Crores to Rs. 375 Crores. For irrigation basically it will be around again Rs.200 Crores to Rs.225 Crores and rest everything from the transportation sector, because if we see the order book 81% of the total order book has now touched the transportation sector and historically also when the transportation sector order book has grown in the company and so company is basically the topline growth has also moved in a significant way that is during the last 10 years, if you see the average debt is clearly evident.

**Ashish Shah:** So what is the total equity you need for all the... sorry I think that was more for SIPL part... anyways thank you.

**Moderator:** Thank you. The next question is from the line of Kunal Seth from Prabhudas Liladhar. Please go ahead.

**Kunal Seth:** Sir I just wanted to check what is the loans and advances outstanding with SIPL from Sadbhav.

**Nitin R. Patel:** See actually the outstanding loans and advances on 31<sup>st</sup> of March is Rs.547 Crores which has come down by Rs.40 Crores basically in the month of April itself because almost around Rs. 80 Crores odd

we have basically supported to SIPL for because of non-receipt of the initial grant from NHAI so that we have now after receipt of the same it has been paid back. So only some Rs. 40 Crores odd is basically pending that is even last part of the same towards the getting the GST amount which basically to be reconciled between the EPC contract... basically O&M contract and also the SPV. So once we get it through and we get the complete clarity from NHAI, so then this will be settled actually.

**Kunal Seth:** Sir so between Q3 and Q4 the increase has been Rs. 80 Crores and that is because of the nonreceipt of the annuity is what you are mentioning right?

**Nitin R. Patel:** That is grant as well as we basically the GST component, so the grant we have already received the Rs. 40 Crores is paid back now, only the 40 is pending now.

**Kunal Seth:** And Sir so what are we targeting this year and what will be this amount by the end of this year because we have been targeting to reduce this but it is in fact going up, so what are our plans there?

**Nitin R. Patel:** See actually obviously see we have already indicated that we will be able to reduce this and just to support that in the last week of March 2018, we have completed the refinancing of Maharashtra Border Check Post where basically we have got the sanction of upsizing of around Rs.520 Crores from that SPV only. So out of that it is already been in the terms of the sanction that Rs. 200 Crores will be utilized to repay to the Sadbhav Engineering by SIPL actually so I think now we are in a process to just within a couple of months we will be able to complete that first transaction remaining whatever money is there that will be utilized for the SIPL only.

**Kunal Seth:** And Sir I just wanted to check again you mentioned that this year we will be targeting to reduce the standalone debt by another Rs. 200 Crores right Sir?

**Nitin R. Patel:** That is why I am mentioning the basically the amount... the way number one the internal accrual, second thing there is no additional requirement at SIPL front, third basically the large amount of mobilization advance almost around Rs. 508 Crores which is yet to be received, fourth basically what I have mentioned that the amount is suppose to be received from SIPL back to SEL. So all put together, we will be able to get it through and over and above that basically we are in a process of getting the arbitration award of Rohtak Panipat against the bank guarantee, the NHAI has now written us. We have received the official communities to submit the bank guarantee and Escrow Agreement so long as 75% of the payment will be released and out of that almost around Rs. 65 Crores belongs to Sadbhav Engineering actually and also we expect that another three awards to be declared by basically arbitrators before October this year that is for Mumbai-Nasik where the whatever amount will come under the award that is 100% pertaining to Sadbhav Engineering the Nagpur-Seoni, the

100% is pertaining to SIPL only and third is Dhule Palesner that is also pertaining to SIPL. So that is way basically we are expecting the cash flow over and above the operational cash flow.

**Kunal Seth:** So standalone that should reduce by at least the Rs. 200 Crores, Rs. 300 Crores this year in spite of our working capital requirement?

**Nitin R. Patel:** Currently we are expecting that we have just first couple of quarters we will be able to reduce it by Rs.200 Crores, then later on obviously when the as we have discussed during the couple of our last calls also because company is very positively and basically firmly going ahead to monetize basically the asset at SIPL level so once it is through so definitely the whole basically matrix at the group level will completely get changed.

**Kunal Seth:** Sure Sir. Thank you so much sir.

**Moderator:** Thank you. Next question is from the line of Kunal Bhandari from HDFC Securities. Please go ahead.

**Kunal Bhandari:** Sir one bookkeeping question, the other current liabilities have increased from Rs. 155 Crores to 394 Crores, any particular reason on that?

**Nitin R. Patel:** See that is basically that includes the outstanding mobilization advance and also the security deposit actually what we are recovering basically from the subcontractors, so this together basically it is because mobilization advance has increased because three, four projects, we have received the mobilization advance so that is the amount is being reflected there.

**Kunal Bhandari:** Sir and one more this might be repetitive but I missed actually how your investments, equity investments and HAM will pan out over the next two years, if you could guide on that?

**Nitin R. Patel:** See between FY2019, 2020 and 2021 basically because the projects which we recently won, we had to basically to spread it over by the 2021 we have to put together but the balance outstanding basically equity requirement is around... the net equity from SIPL is around Rs. 450 to Rs. 475 Crores now.

**Kunal Bhandari:** So any... if you can guide like how it will pan out over 2019 and 2020?

**Nitin R. Patel:** See it is more or less equal amount will be required because largely the upfront equity for all the seven projects has already been funded now and also basically the whatever as and when the project get progressed actually, so we see that it will be evened out. So this year we can roughly say Rs. 150 Crores again Rs.150 Crores to Rs.170 Crores in FY2020 and balance will be in FY2021.

**Kunal Bhandari:** And this does not include the new five projects?

- Nitin R. Patel:** No all put together, this is including all hybrid annuity I am saying.
- Kunal Bhandari:** Sure Sir. Thank you.
- Moderator:** Thank you. Next question is from the line of Hiral Shah from Emkay Global. Please go ahead.
- Hiral Shah:** Sir just couple of questions I just missed the arbitration part can you explain that a bit what all things would come to at Sadbhav Engineering?
- Nitin R. Patel:** Actually the company has lodged four arbitration matter with NHAI all four, the first one was the Rohtak-Panipat that we have already received the award of almost Rs.100 Crores so that out of that Rs. 65 Crores belongs to Sadbhav Engineering, the rest is to the Rohtak-Panipat SPV itself actually so this is one part. Second is the Nagpur-Seoni whether the claim is almost around Rs.120 Crores plus the interest whatever is there actually so that 100% pertaining to the Nagpur-Seoni itself actually. The third one is the Mumbai-Nashik it is a large part total claim amount is almost Rs. 408 Crores plus interest but whatever award will come 72% belongs to Sadbhav Engineering and 28% belongs to Gammon Group actually. So that was the understanding with that in that SPV because Gammon India and we were the basically in a SPV together but the large part of the execution has been done almost by Sadbhav Engineering, so this is the third one and fourth is Dhule-Palesner that is pertaining to the delayed announcement of the toll fee notification by NHAI so this 100% belong to Dhule Palesner SPV, there is no part of Sadbhav the claim amount is almost Rs.60 Crores in that SPV.
- Hiral Shah:** Fair enough Sir. So have we booked anything because Rohtak-Panipat was due past one to two quarters back, so we have not booked anything in SEL right?
- Nitin R. Patel:** In Rohtak-Panipat after getting the award, the basic amount basically we have booked, basically the other component we have not yet booked.
- Hiral Shah:** What will be that amount book?
- Nitin R. Patel:** See basically the all the interest, post award amount, award date that will be once the NHAI release the payment then after we will start booking this.
- Hiral Shah:** Fair enough Sir. Sir all the best for future and thank you Sir.
- Moderator:** Thank you. Next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.
- Parvez Akhtar:** Sir considering that all of our projects will be in operations starting Q3, do not you think a guideline of Rs. 4100 Crores is slightly on the conservative side?

**Nitin R. Patel:** See obviously see that is first... definitely it is on a conservative side but even we have excluded the GST component so if we add that it is almost touching Rs.4500 Crores so this is what we would and just keeping in mind that once we achieve the closure for all and once we are nearer to appointed date so definitely last year how we did and came basically forward to revise the guidelines so definitely we will come on the floor actually and update about the same, but as per the contractual obligation if you see the all these EPC which has already been started plus this hybrid annuity which has already been under the execution now and Q3 all these five when it is become operational so definitely the turnover will go up and also now when the matter has come I would like to mention here in the floor that the just we have announced also in the stock exchange just within a sometime back actually that we are... again we have received the LOI from Karnataka State Highway project for Rs. 995 Crores of the annuity projects and that has been bagged by Sadbhav Engineering actually. So that is another order we have and we have to start the execution again from because there is 75% of the payment is being paid by ADB during the construction phase, only 25% we have to tide up just within a four months of time and we can start the work actually, so that will be further added. So definitely the numbers will go up depending upon the when we actually start the work.

**Parvez Akhtar:** Sure Sir and secondly how do you see the competitive intensity shaping up because at least our guess is you will probably see NHAI project award happening only over the next six to eight months, how do we see competition panning up for one EPC project and second the HAM projects?

**Nitin R. Patel:** See actually if you see that the hybrid annuity definitely the competitive intensity will be less, obviously three to four more players new players have joined like the Adani has now started bidding IRB has already started because they were not putting the bids earlier and also a couple of more bidders, now the Welspun is also putting the bids on a large number of projects, earlier they were there actually but all the projects they were not coming actually. So these three are now active but considering the way the business is there in everybody's hand, we are of the view there may not be much competitive intensity. In EPC to some extent yes, it will be there but further it has also come down because everybody's order book if you see that now it is going up and if you see the requirement in terms of the according to us execution is one part yes it is required but apart from that the arranging all these non-fund based facilities upfront and at a one go by all the organizations, definitely it will be a one big challenge for everybody actually what we envisage actually.

**Parvez Akhtar:** Sure, thank you and all the best for future.

**Moderator:** Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

**Ashish Shah:** Just a couple of questions on the irrigation side, do we have any of the legacy projects still there where we were losing money?

- Moderator:** I am sorry sir the audio is very low.
- Nitin R. Patel:** No problem I got the basically question. Ashish bhai see the irrigation except one projects that is Bahuti there basically that project we are going to lose some amount actually there, rest of the project is over now so there is no any other project where basically there are any such basically short fall, all the projects we have now left behind. We have received the completion certificate for five of the projects during FY2018 only.
- Ashish Shah:** And what is the outstanding value of this?
- Nitin R. Patel:** That is hardly around Rs. 270 Crores to 280 Crores now.
- Ashish Shah:** But you expect that this will still be loss making?
- Nitin R. Patel:** Some earning is there actually because the ground condition is something different actually and also there is some legacy from our joint venture partners actually there.
- Ashish Shah:** Sir on this new annuity project you just mentioned which you have announced on the exchanges, any reason why that has been taken in Sadbhav Engineering I mean if I heard you right you said it is an engineering and not in SIPL?
- Nitin R. Patel:** See the qualification criteria when the client has brought in, it was that the only technical thing he has asked he has not asked for the developmental score actually so if you see between Sadbhav Engineering and Sadbhav Infrastructure, so Sadbhav Infra does not have the technical score in terms of the execution of all these projects SIPL has very large amount of the developmental score but SEL all technical bit is being met by the SEL. Second thing the 75% of the money is coming by way of grant from the ADB actually, so that is why the client has basically put, so for us it is largely EPC contract. The balance 25% is very easy to be able to close it actually.
- Ashish Shah:** So you are saying that because the essential requirement is of an EPC contractor and the proportion of grant is very high, you have taken it in SEL?
- Nitin R. Patel:** Correct and so SIPL was not mitigating the qualification criteria actually.
- Ashish Shah:** But there was no thought process of doing a back-to-back JV and with the qualifications of SEL?
- Nitin R. Patel:** No.

- Ashish Shah:** But this does not mean that in future annuity projects or those kinds of projects will come under SEL, this can be an exception because of the specifics of the tender?
- Nitin R. Patel:** Exactly same exactly. See even this particular client actually what unlike basically NHAI this client even does not allow to put subordinate date in lieu of the equity actually. So they are asking whatever equity is 100% in form of the share capital only. So that is something different what Government of Karnataka wants.
- Ashish Shah:** Sure. Got your point. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Bharani Vijay from Spark Capital. Please go ahead.
- Bharani Vijay:** Can you give me the split of HAM execution in this quarter 4Q FY2018 project wise?
- Nitin R. Patel:** See actually we have provided the execution by the five of the HAM, BRT Tiger Reserve Century Rs. 193.26 Crores, Udaipur Bypass Rs. 116.47 Crores, Bhavnagar-Talaja Rs. 110.40 Crores, Rampur-Kathgodam Rs. 97.59 Crores and Rampur-Kathgodam package II is Rs. 73.11 Crores.
- Bharani Vijay:** And in the guidance of about Rs. 4100 Crores for FY2019, how much it would be coming from HAM project Sir?
- Nitin R. Patel:** See actually if we see the EPC now I will take you to some reverse only. So this Rajkot work we have to... Rajkot-Ahmedabad we have to complete this within a period of two years and this Kandla work is also required to be completed in this year itself. So we expect that almost around Rs. 1000 Crores of the work will come from the EPC this year and hybrid annuity, we are of the view that almost around Rs. 2400 to Rs. 2500 Crores will come from hybrid only actually.
- Bharani Vijay:** Okay. Thank you for answering my questions and all the best.
- Moderator:** Thank you. Next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.
- Parvez Akhtar:** Just on this KSHIP project that we won I mean how does the payment schedule work, is it similar to NHAI or once the project become operational how do the annuities come?
- Nitin R. Patel:** See actually yes there is a five milestone actually in this project so this entire 75% will be released in the five milestones during construction phase and the construction period is 24 months only and remaining 25% we have to bring by way of debt equity whatever we arrange actually.

- Parvez Akhtar:** Nitin bhai I was asking what happens post COD, how does the payment schedule works once we achieve the COD?
- Nitin R. Patel:** See once we achieved the COD then the rest amount is the annuity will be paid by the KSHIP over the period of balance seven years, semiannual annuity they will pay actually.
- Parvez Akhtar:** And what is the amount of that, is it a paid amount or does it work as per NHAI that they will pay the 25% over seven odd years?
- Nitin R. Patel:** Exactly see frankly speaking offhand I do not have the completely number.
- Parvez Akhtar:** Sure, no issues I will take it offline.
- Nitin R. Patel:** We will share you I apologise but I will definitely share with you.
- Parvez Akhtar:** Sure Sir. Okay, thank you.
- Moderator:** Thank you. Next question is from the line of Kunal Bhandari from HDFC Securities. Please go ahead.
- Kunal Bhandari:** Sir just one question Sir what sort of margins would you be maintaining in HAM projects in SIPL, you work back to back contract, would you be retaining margins there?
- Nitin R. Patel:** See definitely all the hybrid annuity projects not margin but generally operation and maintenance activity during the construction phase of the existing carriage way is being done by SIPL and SIPL is earning the margin out of that operation and maintenance revenue actually so that is way how the business model has been worked out.
- Kunal Bhandari:** Okay Sir. Just I was asking this because many other players are getting the 15%, 16% margin should have also and we are getting 12% so that is why I was asking.
- Nitin R. Patel:** See two things what I can mention here that the if I have to take the money everything in Sadbhav Engineering and again basically I have to put the same money from the balance sheet of Sadbhav Engineering to the SPV then definitely Sadbhav Engineering will make the margin of again 15%, 16% what you are telling actually, that is correct. Ultimately our view is very clear that the money which is required to be funded for a very longer period and a developmental capital is required so that is to be well defined so that is why we have kept everything completely different and EPC what we are doing for the third party and bearing 1% or 2% higher we can take from the hybrid annuity, the rest basically should be well within that range only. So tomorrow when the hybrid annuity will not

come definitely my margin level will fall actually if I have everything putting into the Sadbhav margin.

**Kunal Bhandari:** Sure Sir. Thank you.

**Moderator:** Thank you. As there are no further questions from the participants I will now hand the conference over the Mr. Nitin Patel for closing comments.

**Nitin R. Patel:** First of all thank you very much to all the members who have taken their valuable time and also the investors as well as the qualified analyst as well as the various clients of the bankers who have taken their basically time to understand the business of the company. One thing basically we would like to seriously mention here that the company's overall intention internally event management is of the clear view that they want to go for a deleveraging of the company on a large scale basis and definitely that the way the transactions our company looking forward basically, so our company is very clear that the going forward basically whatever the developmental growth capital and everything is required particularly for the development business that should come from the basically money which has already been invested by the company into the already operational projects the significant part is that the operational projects are fundamentally doing very well even in terms of the tolling numbers for April and May also is the very encouraging numbers are coming so we are of the clear view that this will give a further uptick to the overall group level the improved cash flow from the operational and the developmental activity itself and the way I describe that we are committed to do this. So that is what I would like to convey and rest of the things the company is well poised basically for getting it through. A large number of businesses now coming from the highway sector are evident from the order book itself. So going forward we are quite confident and if you see the history of the company basically in none of the highway project company has lost the money basically and almost all the projects either completed well within the time or ahead of schedule actually. So that is what we would like to convey. Thank you very much and thank you very much to SBI Cap Securities for organizing this conference call. Thank you from our end.

**Moderator:** Thank you very much. Ladies and Gentlemen on behalf of SBI Caps Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.