



## “Sadbhav Engineering Limited Q2 FY17 Earnings Conference Call”

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**MANAGEMENT: MR. NITIN R PATEL – EXECUTIVE DIRECTOR AND  
CFO, SADBHAV ENGINEERING LIMITED  
MR. VASISTHA PATEL – EXECUTIVE DIRECTOR**

**Moderator:** Good day ladies and gentlemen, and a very warm welcome to the Sadbhav Engineering Limited Q2 FY17 Earnings Conference Call hosted by Inga Capital. We have with us today Mr. Nitin R Patel – Executive Director and CFO of Sadbhav Engineering Limited and Mr. Vasistha Patel – Executive Director. 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 phone. I now hand the conference over to Mr. Nitin R Patel – Executive Director & CFO of Sadbhav Engineering Limited. Thank you and over to you sir.

**Nitin R Patel:** Good evening everybody. First of all, let me give a very warm welcome and thanks to all the basically participants for taking their valuable time for discussing the today’s conference call pertaining to Q2 FY17 and H1 of FY17 numbers of Sadbhav Engineering Limited. I am sure that you must have seen the media release hosted on both the stock exchanges by the company. So, before basically we discuss about the overall numbers and business, let me go through the complete bidding activity across the sector and basically how the company is placed actually, so just to have some brief about the overall business scenario in the sector itself actually.

So particularly in road sector, so we have bifurcated the numbers, basically details in the 2 different parts; one is the RFP stage and second is the RFQ stage. So in RFP, where we have to directly submit the tenders where the qualification is through, so in road EPC business there are 33 number of projects amounting 26,196 crores are there for bidding before basically the coming couple of months. The second, road hybrid annuity and the road BOT, I think both will be done by Sadbhav Infrastructure, we have discussed during the conference call of Sadbhav Infrastructure also. But the latest update as on today is there are 20 projects in a hybrid annuity amounting to 25,260 crores and one project under the BOT toll that is 1,032 crores, so this is the RFP stage. So, with regard to RFQ stage, the EPC there is only one project amounting to 330 crores but road BOT toll, there are two projects costing 9,099 crores. So, these two particularly, one is the large one, this from Vadodara to Kim, so that still basically as per the NHAI website is showing in the BOT toll. So, no modification has been given so far and basically this Solapur-Bijapur again came for the bidding under the toll, so that has been included here. So, these 2 projects are there for BOT toll as of now and one RFQ is yet to be submitted by us amounting to 12,044 crores that will be from SIPL. So, all put together as of now 58 projects costing 63,162 crores are there in a road sector to be bid out over the couple of months from now.

Now, on the mining segment, there are 9 tenders in the pipeline to be submitted till end of Q4 FY17. Out of 9 projects, 5 projects are under MDO model and remaining are medium term basically mining contracts ranging from 4 years to 7 years. So, in both the segments we are working out depending upon the qualification how we are getting and if not, the company will

basically go for some joint venture so far as MDO is concerned and the other than MDO company has its own qualification. So, this will be another focus area for coming period of time.

And in the irrigation front, except for bid opening of Sirhind Feeder project work called by Irrigation Department, Government of Punjab for which we have already submitted the bid to the tune of 2,200 crores. No other bid submission is there at present level actually. So this is basically all the 3 segment numbers.

So in nutshell, we continue to be confident on the ordering in road sector while we foresee a number of basically EPC as well as this MDO kind of contract for mining sector. For irrigation, we continue to build the business on selective basis as and when the bid will come.

Now coming to the present situation of SEL business, the order book as on 30<sup>th</sup> September 2016 stands at 6,234 crores. So, I would like to give here slight update in the media release there was one typo error basically and because of that we have reported the outstanding order on 30<sup>th</sup> September was 5,979.60 crores. So, I request all of them basically to just put a modification on the total order book as of 30<sup>th</sup> September. Apart from that if I go through the segment wise, the transport sector order book was 3,211.25 crores. Irrigation segment was 1,186.77 crores and in mining sector it was 1,835.97 crores.

Apart from above, Sadbhav Engineering has received 5 projects basically the EPC contract through basically Sadbhav Infrastructure SPV amounting to 3,128 crores after 30<sup>th</sup> September 2016. So with these, the total order book stands at Rs. 9,362 crores as against, also basically now against this as we have in during various calls during the year mentioned that the company's target is to reach, basically add at least around between 5000 to 7000 crores of the new business for the current year. So, out of this 3,128 crores, particularly in EPC in Sadbhav Engineering has already been added. So, rest basically we are confident to achieve the target by the end of the year considering the bidding pipeline as I have mentioned above basically.

Now, let me start with the summary of this quarter's financial numbers. So, income from operations for the quarter stands at Rs. 615.60 crores against 745.90 crores for the last year. EBITDA for the quarter stands at 65.4 crores against 80.7 crores for the last year and profit after tax for the quarter stood at 18.5 crores against 27.8 crores of the last year. So in our basically media release, we have also mentioned the point but here just I would like to recollect that there is a decline in the quarter's numbers of the topline and that is mainly due to the reasons basically that particularly in two road projects of the Managuli-Devapura and Mysore-Bellary in the state of Karnataka was affected at least by 20 days basically the construction we have lost actually and some other days because of the some construction material reach late and because all of the activities we could not start on the one day go itself,

so there we envisaged that almost around 35,000 crores of the topline has been lost by us basically because of the Cauvery river issue.

And also in irrigation segment, because in last couple of conference calls, I have mentioned that the irrigation segment is going to see a basically execution for the year itself and the pace is going on very well and the reason behind that the large number of joint venture contracts, the company is in a position to complete as earlier as possible. So, we are completely on the track, but obviously because of the heavy monsoon scenario particularly in the state of Madhya Pradesh and other part basically, so we have seen that at least one and half months of the work we could not basically achieve in irrigation segment. So according to us, almost around 70 crores of the topline we could not achieve because of this scenario and in case of mining obviously yes, we have discussed regularly but again the service tax issue pertaining to the BCCL is still there. Last week, we had a series of meeting with the higher authorities and we are expecting that by the end of December, the conclusion will come out so far this BCCL service tax issues and that the progress of that particular project is concerned actually.

Also currently, obviously the exhibition of the other front particularly now the irrigation, roads and everything and mining other than this BCCL project actually everything is on war footing basis and we have also mentioned in our media release that in particular October which is already over, so we have completed the construction activity to the tune of 325 crores across all the projects of the company. So, I think pace is now well within the track and we are expecting that it will continue over the period and this particularly 325 crores does not include any topline from all the 5 hybrid annuity projects basically business with the company is supposed to start execution. I think once I complete my speech, I will ask Vasistha bhai to give the update on the same where we would like to start execution and what will be basically the pace for all these projects and overall how we are seeing basically year end.

So, this is the number; apart from that, the EBITDA margin for the quarter stood at 10.6% as against 10.8% in the same period of the previous year actually. There is a slight increase, particularly almost around 5 crores increase in the finance cost that was mainly due to change in the working capital requirement in the 5 EPC contracts which the payment mechanism is under the stage completion method. So, we expect that this is to be normalized by Q4 of FY17 because all the required working capital has been pumped in and then now we have started seeing the actual invoicing and payment by NHAI on a regular basis and in October itself, we have seen out of this 5 projects itself has generated the topline of almost around 210 crores out of 325 crores what I have mentioned. So, I think that is now started coming back, but still one more quarter we have to monitor the working capital requirement for this projects, then after things will be much more in a normal way actually.

We expect the finance cost go down because of basically the freeing of some of the working capital in the irrigation projects basically because number of irrigation projects where we are

about to completion, we have started putting the final bill and we are of the view that the large number of working capital will be released from these projects before the end of the year actually, so this will definitely help to reduce the working capital usage as of now. Effective tax rate particularly for the quarter is nil because maximum contribution has come from the EPC project which are eligible for ATIA exemption and due to which the normal tax is nil and hence company got the entire MAT payment as MAT credit actually. So, this situation shall continue at least for 3 to 4 quarters from now and because the company has a large credit available of the MAT and the large number of the turnover for the coming at least 2 to 3 quarters are going to come from the EPC business also.

On the execution front, the top 5 projects by execution during FY17 have been disclosed in the media release. The work has picked up tremendously well, full swing in all the EPC projects won by the company during FY16. The execution amount during the Q2 of FY17 in three projects is already mentioned in the media release. Obviously, the company has received the appreciation letter from NHAI on 14<sup>th</sup> July 2016 for the pace of work in Eastern Peripheral both the packages; package one and two. And also as discussed in last conference call to complete execution of smaller size irrigation projects which company had taken over from JV partners, we are on a track to complete majority of the project by the end of this year. The changes in the order book of EPC business what in relation to the new accounting standard that is the Ind-AS as can be seen from the results that there is no major impact on the results. We continue to remain confident of scaling new heights in both construction and BOT business considering the large pipeline in the road segment itself in all basically so far as BOT, hybrid annuity, toll and as well as the EPC contract is concerned. We expect that growth in the construction business will be laid largely by the roads and highway sector for at least 2 to 3 years basically because this segment is continued to show a tremendous growth over the period of time.

Also, the impact of demonetization on the overall business of the company, so the government's announcement of demonetization will not have the major impact on the infrastructure activities of our company as the payments to all the laborers generally all are the organized workers and every worker, even labor contractors workers are covered under the PF and all other regulatory requirement and that is being monitored by the company every month on month actually and almost all the payments company is making through either the direct credit or through the cheques actually. So that does not have any much impact on the construction as of now is going on smoothly. On the other hand, obviously the lesser cash transactions will lead to higher deposit with the bank what we are seeing and obviously the higher tax collection by the government it envisages, that it will allow bank to reduce the lending rates and also enhance the lending capability.

So with these, what we are of the view particularly in infrastructure sector where the company is having the presence, we are very much confident and very positive in terms of this demonetization mode that the direct benefit to the infrastructure companies as well as either in

terms of the reduction is the cost of funds as well as the enhancement coming off the new business as well as the payment mechanism by the government to the infrastructure industry, everything will be positive for basically overall the sector is concerned.

So, I think this is largely from my end and I am again thankful to all the participants for listening to me for the opening remarks and I would now request for the question and answer session for the members of the company, please.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

**Parikshit Kandpal:** Sir, just on your balance sheet when I compare your debtors from FY16 base, so 999 crores that moved up to almost 1,490 crores the 1H. So, can you just explain why such a huge deviation while your H1 Y-o-Y growth is negative?

**Nitin R Patel:** See, mainly as I have mentioned that the large number of working capital company has blocked particularly in the EPC contracts and I can basically tell because we have also analysed everything in very detail. So, the outcome seems that almost around 320 to 330 crores of the working capital alone has been blocked in the 5 contracts EPC and according to basically the work actually executed on the side almost around 460 crores of the invoicing was basically pending from the NHAI side and as I have mentioned that because the resultant outcome is that in October itself we have received the topline of at least 210 crores from the this 5 EPC contracts only. So, the main reason is that the EPC because the payment mechanism is largely, it is a stage completion method. So obviously I think everybody all these EPC players who have taken the job, this kind of situation will persist.

**Parikshit Kandpal:** Have not we got some advances against these 5 projects, I mean what will be the amount we would have received against these 5 projects?

**Nitin R Patel:** See, actually we have received the advances also but the condition with the NHAI was that the within a one year, it was an interest free and post one year it will be an interest bearing and the cost of interest is 18% actually. So that was the condition of the contracts. So, what company has decided that on the due date of each and every advance we have started repaying the advance on the one go. So, almost 45% of the advance has already been paid back to the authority and remaining basically we have to pay back by the February, till then everything has to be paid off to the authority. So considering these, practically the usage of advance is not there. So that is why we have to pump the additional working capital for the purpose of the smooth execution and keeping the pace basically for these projects.

**Parikshit Kandpal:** So, the 500 crores increase you said 300 crores have gone into the road segment and balance 200 will go into irrigation and mining?

- Nitin R Patel:** See, total 460 crores basically is coming that is for the road sector only.
- Parikshit Kandpal:** So, entire increase is largely on..
- Nitin R Patel:** Rest is only hardly because monsoon quarter, there will not be any kind of basically much outstanding because if you see the irrigation and the mining, the turnover itself is little bit lesser and BOT projects, there is no this kind of situation, hardly some of the variation payments where the authority is supposed to make that is pending but we will be spending basically from the last year onwards also, say for example Rohtak-Hisar almost 63 crores of the variation has been approved by independent consultant, it is pending for NHAI headquarter for approval. So, obviously this is showing as the debtors outstanding. So, once we will get that payment that will be reduced now.
- Parikshit Kandpal:** Will this be a stable level, 1500-1600 crores will be debtors which will persist for some more quarters or it will come down?
- Nitin R Patel:** In Q4, it will come down drastically because see, another apart from that as I have mentioned, the large number of payments from irrigation sector now, again I would like to reiterate here that yesterday only we have submitted the final bill for Omkareshwar package-1 amounting to 41 crores to the government of Madhya Pradesh. So, if we see basically, this is the only one package. There are another two Omkareshwar packages are there, for which we have invested the money on behalf of the GKC projects and this amount is now due and payable by the government. Apart from that in Radhanpur package, recently the variation approval of 53 crores has been made by the government of Gujarat actually. So, that will also come as a payment underlying before the end of the quarter. So, these all will add basically further, also the ace of the working capital, also it will reduce the debtors level also drastically by the end of Q4.
- Parikshit Kandpal:** What will be like, right now the debtors is 155 days, so how much can we expect?
- Nitin R Patel:** I think it should come down below almost around say 1000 crores that is the expectation for us.
- Parikshit Kandpal:** And sir what will be currently the total loan standalone debt of the company?
- Nitin R Patel:** The total outstanding as of even today, if we can say it is around 1,170 crores. 1,170 crores is the outstanding position.
- Parikshit Kandpal:** And what will be cash on standalone?

- Nitin R Patel:** See, on the standalone cash, I think hardly 40-42 crores will be there because even today's term we can see that because yesterday only I think all the market payments and everything has been cleared by the company. So, I think this is the cash position of around 40-45 crores.
- Parikshit Kandpal:** How much we are expecting written off basically the payment debt repayment by SIPL to SEL?
- Nitin R Patel:** See, again by SIPL outstanding is 280 crores, so debt out of the 280, we are expecting another 200 crores will come back before the end of this year. So, remaining 80 will only remain, so I think that we will be able to close next year.
- Parikshit Kandpal:** Standalone debt by year end should be around 1000 crores, we expected to be around 1000 crores by year end FY17?
- Nitin R Patel:** It should even go, by year end it should even go as I have mentioned of the position the debtors recovery will be there, so definitely it will be utilized for the purpose of straightway reduction because for the hybrid annuity projects, we are about to get around 320 crores of the mobilization advance from hybrid annuity project in the Q4 itself.
- Parikshit Kandpal:** And sir just one last question, this MORTH has basically invited for any 30-year projects in Maharashtra on an EPC basis around 16,000 crores project cost through MSRDC, I think 17<sup>th</sup> January the bids are opening. So, are we going to bid for these projects?
- Nitin R Patel:** See, actually again we have not considered in the list I have mentioned here for the bidding but obviously we will see that what the exact payment mechanism and how all the structure because more particularly after taking the job, the important part is that we should also get and apart from that what is the ground situation, so far as land acquisition and other clearances are concerned. That all needs to be verified and then after we will take a precise call on the same.
- Parikshit Kandpal:** But will the terms be any different because this is being done through MORTH, so will the terms and conditions there be any difference versus NHAI?
- Nitin R Patel:** See, largely it will be there, but ground situation I think the MSRDC and they have to give the clearance for the same. We are regularly monitoring with MSRDC and what is happening on the ground apart from their consultants, we are also in touch with them. So, I think once the things will come as exactly all the parameters like they say 80% of the land is there only now putting the bids actually for the bidding. So, that they have made very clear, so again here the scenario we have to see that whether the 80% possession is there or not, otherwise basically we may land up in some problems on a later date.
- Parikshit Kandpal:** And sir, we will not be extending any further advances to SIPL right to meet the pending, so what would be the total pending equity requirement of SIPL now?

- Nitin R Patel:** See, even we have discussed during the call of SIPL, but see for current ongoing project there is no equity requirement. Our five hybrid annuity projects, we have worked out. The net requirement of the equity will be around 160 crores, net. Out of these, see after getting basically the EPC work of the operation and maintenance from these hybrid annuity project itself is coming and after net of tax, the money we can utilize for the purpose of investment. So, gross is around 460 crores, net is as I have mentioned 160 to 170 crores maximum.
- Parikshit Kandpal:** But why this difference and 460 is a gross equity requirement, so 160 you are saying is net, so balance you are saying is met with the EPC margin.
- Nitin R Patel:** See, SIPL has EPC work also and that will be the margin of SIPL after paying the tax and everything will be utilized for the purpose of the investment of the equity of these five hybrid annuity projects.
- Parikshit Kandpal:** They have something like development fee, you are saying 9%-10% of the project cost?
- Nitin R Patel:** No, obviously it is operation and maintenance activity to be carried out during the construction period. So that assignment has been taken by SIPL because unlike other projects here from the signing of the concession agreement itself, the obligation of this O&M is with the SIPL only, so that means the SPV's obligation is there. So, EPC contractor will not come in the place after basically taking the appointed date only the EPC contractor will come into the picture.
- Parikshit Kandpal:** So, net requirement will be 160 and gross is 460 you are saying?
- Nitin R Patel:** Correct, exactly.
- Moderator:** Thank you. We will take the next question from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Sir, my first question is again on the working capital and you mentioned that you expect the working capital, basically the receivable debtors to come back to 1000 odd crores by the end of this financial year but in that you are also assuming the mobilization advances from the HAM project right? Is my understanding correct?
- Nitin R Patel:** No, see ultimately I am telling about obviously now the debtor situation I have mentioned, this position obviously will come down drastically because of the large amount we have basically blocked for irrigation which are about to complete the number of projects. Second thing, the five EPC contracts where the money has already been invested, now we have started getting the amount, so this is second part and also some of the variation amount, largely it is spending with authority for some of the already completed BOT projects. So that may come to the EPC contractors, so this is one part. We are expecting that this position the debtors level should come down to 1000 crores levels and obviously this will help to reduce the debt position, but

some of the debt will also be utilized, some of the capital will be utilized for the new hybrid annuity projects also by the company itself. So in nutshell, net the debt level obviously should again come down to 1,170 crores basically.

**Amit Sinha:** So, broadly what you are saying is the working capital requirement in the current execution mix of ours which is mainly EPC will remain same as FY16, right? I mean, if the receivable days remain at around 1000 odd crores, then there will be no working capital increase because of the mix change in the execution, right?

**Nitin R Patel:** Q3 as I have mentioned, Q3 we will have a slight increase but in Q4 it will normalize. So, that is why I have mentioned that ....

**Amit Sinha:** On a yearly basis. My second question is on the overall revenue guidance for FY17, can you help us with that and the sectorial breakup?

**Nitin R Patel:** I think Vasistha bhai is already there on the call and I would like to request Vasistha bhai to give basically some light on basically the current execution as well as the starting of the HAM because we are already about to take the appointed date for four HAM projects and fifth one also, we are well in advanced stage of achieving the financial closure. So, what will be the overall impact on the yearly completion, Vasistha bhai you please give the idea on the same.

**Vasistha Patel:** Good evening Nitin bhai and good evening everybody. Regarding this five hybrid annuity projects, we have already achieved the financial closure of four and the papers have submitted to NHAI and we are targeting our appointed date in December and onside we have already achieved almost 90% land in all four projects, two are in Gujarat and two are in Uttarakhand. So, this four projects we are targeting almost starting work is from January and we are achieving almost say 150-150 crores from both the projects. So, these four projects we are targeting to speed up in last quarter and in regarding this Bangalore project, we are targeting our financial closure in January and appointed date in February. So, there are two months working in Bangalore project also and regarding the EPC five projects, we are in full space and three projects in Haryana and two are EPC projects, one small project is in Jodhpur but we are targeting to complete Jodhpur before the February and AP and this Haryana projects, we are in full phase and targeting highest turnover before the March.

**Nitin R Patel:** So, basically, see Vasistha bhai, see Amith bhai wants obviously where we should basically end up for the year end. So, last year we had some 3,200 crores of the topline, we want guidance basically, so I think ....

**Vasistha Patel:** Yes, we are targeting about minimum 12% to 15% hike for this year. We are targeting ending up to 3,600-3,700 minimum.

**Nitin R Patel:** So, almost we are basically on the same numbers basically what we have envisaged. So, that means the Q3 and Q4 will have the robust increase and as I have mentioned in October itself, the pace has been increased now.

**Vasistha Patel:** Nitin bhai, one point I have to clear because regarding the cash flow you are discussing, what happened in our EPC projects because we have five EPC projects, in particularly Eastern Peripheral Expressway, we have got the appointed date in the October and we have taken the mobilization advance in October but because of the land acquisition work started in April but because of the concession agreement, we have to deposit the mobilization advance in October this year.

**Nitin R Patel:** We have already now started depositing. So, I agree but we are discussing the NHAI, so if NHAI is considering, then something different will come out, but as of now we are considering that we have already started repayment.

**Vasistha Patel:** Right because we have a working period from April only. For Haryana projects, we have started the work from February and we got the mobilization advance in October. So, now work is pick up and all cash flow and everything is now in a smooth manner, so that is why some cash flow disturbance particularly for that because of monsoon and work started delay in particularly that EPC project, that is why the cash flow is disturbed there.

**Amit Sinha:** And in the mining segment, what is the update on the BCCL project?

**Nitin R Patel:** See, BCCL we had a last week the series of meeting with the highest authorities and now they are coming to the point number one, service tax issues largely they have agreed to sort out but before that, there was a some of the hold payment was also there by the client and that is the reason behind they hold that because we have slowed down the work there and they have asked us to basically take up the work basically as fast as possible. So, two of the projects we have already settled the team there and one area we have asked the client that once you complete all these formalities, then after we will be able to complete. So, we have decided that internally with the client and before December things should be sorted out and then after we will take a call that on third project what is to be done based on how the client is closing the matter. Rest of the two will be there in a smooth execution. So, we will start seeing the numbers because the season thus started on basically both the projects now.

**Amit Sinha:** And the guidance which you gave for the mining segment remains the same, we will be able to ..?

**Nitin R Patel:** Correct. So almost we are seeing, I think we have mentioned around 350 crores of the topline, 3 to 370 that we will be able to achieve for the year.

- Moderator:** Thank you. We will take the next question from the line of Nitin Arora from Aviva Life. Please go ahead.
- Nitin Arora:** Sir, can you just tell me the revised order book number, sorry I missed that, you said it 6,234 crores, right?
- Nitin R Patel:** Correct, 6,234 crores.
- Nitin Arora:** Can u give the revised number of the BOT in a cash contract, the order book?
- Nitin R Patel:** Exactly. See, the bifurcation is like that. The cash contract of EPC is 2,923 crores and other cash contract is 131.74 crores and BOT the pending work is 156 crores, total all put together and irrigation sector is 1,186.77 crores and mining is 1,835.97 crores. This is without adding the HAM order book.
- Nitin Arora:** And as Vasistha sir is also there in the call, sir you said of the 3,128 crores, you will be able to recognize at least 150 crores in the second half from the HAM?
- Nitin R Patel:** No, 150-150 both he has mentioned. So, around 300 crores he is targeting for Q4. The work, I think has already been started. We are already infusing the working capital in both the projects, all the four projects actually. The clearing and grouping and other basically site related activity and some structure related activity has been started on the job without taking the appointed date, but the idea is that we are basically in a dialogue with the authority to basically close the some golden numbers. So once it is there and some payments if we release, then after we will take the immediately appointed date.
- Nitin Arora:** Sir, with respect to your guidance on the mining side, your quarterly run rate is still about 70 to 65 crores in the first two quarters. Any particular reason you see it going up to close to about 90 or 100 crores because of this BCCL getting issues or the other projects getting a little ramp up?
- Nitin R Patel:** Mainly, three of the projects, one project we have completely stopped the work and two, we have slowed down.
- Nitin Arora:** That is BCCL, right?
- Nitin R Patel:** It is the BCCL.
- Nitin Arora:** Which is sir, how much amount is 320?
- Nitin R Patel:** Basically the guidance what we have mentioned, it is 350 to 360 crores.

- Nitin Arora:** And BCCL amount of work is how much?
- Nitin R Patel:** BCCL, this particular Basantimata is almost around 490 crores job is there, still outstanding and in Katra, it is almost around 160 crores job is outstanding and third one is basically Dhansar, there we have another 30 months. So, almost around 280 to 290 crores of the job is there.
- Nitin Arora:** And in all this, they still not resolving the service tax part?
- Nitin R Patel:** Major service tax because that payment we are not getting it and it is mounting up actually. So, today basically almost more than Rs. 39 crores basically in these three and also almost around 10 to 11 crores in other couple of basically job, Northern Coalfield because with these, BCCL, they have also basically started blocking that money. So, even this, almost all this EPC contractor moved to the Supreme Court and I think that this is only awaited. So if these come and clarification comes, things will be very clear on how it will come out.
- Nitin Arora:** Sir, in the SIPL which owes about 200 crores to the SEL, you mentioned that amount should come down by another 200 crores. Now, if you look at your numbers that barring the working capital requirement of the business, it seems like whatever the numbers you will get in the working capital easing, you will definitely do a debt reduction as you pointed out but you will require a working capital for your execution which will be very faster in the second half for your cash contracts in HAM. How is that money is going to come reducing, it is something we are looking for a stake sell in our BOT projects in something because we are seeing that interest from the lot of people in your DPTL and HYTPL projects, is it something that is you are working with and that is why you are saying that 200 crores reduction will come straight away?
- Nitin R Patel:** No, see there are two things. There are 200 crores we have earmarked from the refinancing of Maharashtra border check post. So, MSRDC through the steering committee has already given the approval for refinancing and the matter went to the government of Maharashtra Transport Secretary for the approval. So, we are expecting that approval may come within a couple of weeks. So, once it is there, we will start basically all the pending sanctions and the documentation we will start and there the money which SIPL has additionally invested for the price escalation because of the delayed handing over of the various check post land by the department. So, that cost has already been incurred by the SPV by way of the additional equity infusion by SIPL. So, those lenders have already agreed to repay back to SIPL and again SIPL will pay back to Sadbhav Engineering 200 crores. So, that is the way how it has been worked out. So, it is very clear line of available and whatever if anything stake sale or any basically pertaining to the SPV is happening, so obviously this will be a process, so company definitely at a certain stage as of now definitely we are in a non-disclosure stage. So, we are not able in a position to give the lot of other details.

- Nitin Arora:** Sir, you are seeing the price escalation over the Maharashtra border check post was amounting 200 crores which will be returned back to SIPL, it will go to SEL straight away?
- Nitin R Patel:** Right.
- Nitin Arora:** And sir, what is the finance cost of Maharashtra border check post as it got refinanced now?
- Nitin R Patel:** Currently it is 11.30, so we have got the indication from almost three of the large lenders in the country that they have agreed to come at 10, 9.9 to 10 actually. So, we are quite hopeful that substantial reduction at the border check post and again if anything what is coming in the current credit policy now which is due in a short time, so that will further give the advantage **in** basically SPVs.
- Nitin Arora:** Sir, with respect to the demonetization as you mentioned in the starting of the call, there is not much impact you are seeing, so when you say not impact is seeing, you are seeing not at your sites right now where the execution is going on?
- Nitin R Patel:** Correct. See, our Sadbhav Engineering as a construction activity has not been impacted. So, correct.
- Nitin Arora:** And sir just last question with respect to the SIPL, let's say the date whatever the NHAI decides to extend it or delay to allow free usage of the tolls. If that money how you are going to account it for, let's say for the next quarter till the NHAI gives you notification, then auditors gives you a permission to accrue it in your P&L as a run rate, will you wait for that notification or it is an understanding already being done that we will still accrue it because any which was something come as from the government side as per the concession agreement?
- Nitin R Patel:** See as of now, the payment has already made to the lenders, number one and we have already raised the invoice on NHAI. Now based on the circular, the process has been started to get the certification from their statutory auditors. So we expect that within a week's time, we will be able to get the certificate from all SPVs and we will submit to authority and authority has told that once the documents are there in place, so they will not take much time to release the payment.
- Moderator:** Thank you. The next question is from Ankit Fitkariwala from Jefferies. Please go ahead.
- Ankit Fitkariwala:** Just a couple of questions. First on the mining side, so for a couple of quarters now we have been highlighting these MDO contracts, just wanted to understand like realistically when do you think these contracts to finally go through and being decided whether we get it or not, so means what are the hindrances there and what stage are they?

**Nitin R Patel:** See, it is first of all we do not want to basically go and take the projects on haste, number one because this is the 20, 25, 30 years kind of contract. Also, the CAPEX requirement is large obviously which kind of model we are adopting it depends. Third thing, the client positioning as well as all other diligence basically, so tomorrow today they may start opening of the mine and everything. If something happens in some of the other parameters which may trigger off and that may basically end up in the reduction in the scope or some kind of other contractual situations, so all these is being studied out. Second thing in qualification area because all the MDO we do not have the direct qualification basically, but obviously some of the projects whether size is within the range say within the five to six million tonnes per annum. So, we had an independent qualification, but if the size is going beyond say seven or odd basically million per annum of the coal, so naturally then we have to form a joint venture. So, we have already started the process and couple of companies are visiting here in India from abroad within this first half of December and we have already exchanged the documents and everything. So, once that will through, so obviously we will again go for the other bids also. So, because as I have mentioned in my remark that five, this MDO bids are there already for the bidding, but we will have to form out exactly which bid we will submit actually depending upon the comfort.

**Ankit Fitkariwala:** What I wanted to understand is that see, if you can just give a broad picture as to like say from today say about three months, does it take to get the tendering done and then opening of the tenders and then final awarding. So, if you can give that kind of a timeline in an ideal scenario, if no major hiccups come. What do you expect?

**Nitin R Patel:** See, normally, what is in MDO the production after getting the bid, the process itself is five to six months process actually and within that because getting the equipment for these MDO projects is also basically it requires a time scale. So, what we have seen in the couple of bids what we have submitted previously and also basically make the preparation of the submission of the bid. So, there we have envisaged that the minimum eight to nine months is required for the purpose of obtaining the equipment on the deck and also the client has mentioned that every year initially, first two to three years they have the very lesser production depending up on the what is overburden area and how the mine is to be developed and opened and others like the R&R activity is there, even construction of the camp facilities and the office areas and other infrastructure, even shifting of some of the local habitation and everything. So, but what we understand that any MDO which we start now and actually coming to a peak number, it required at least say within at least 3 to 5 years horizon.

**Ankit Fitkariwala:** And in out of these five MDOs, how many are NTPC ones?

**Nitin R Patel:** I think the only one from NTPC.

**Ankit Fitkariwala:** Secondly, Nitin bhai on the completion for this, so far Mysore-Bellary we are on target of completion, any update there?

**Nitin R Patel:** Mysore-Bellary, other than the land which has not been handed over on the bypass area that 6.5 kilometers, rest job we have completed, we have already returned to the client that you should basically dealing this area and issue the completion certificate so long as we can start claiming the bonus for that particular portion because the scheduled completion is June 2017 and now the client has also started dialogue with the World Bank Authorities also because they have to take them into the confidence. So, the matter is on the track because once they give the other balance of the land, it requires another two months basically for completion of that portion also. So, that is why we have moved at this way.

**Ankit Fitkariwala:** So, do we get the annuities in proportion of the completion, is it?

**Nitin R Patel:** See, two things can be done. We can continue the bank guarantee of the performance amount with the client and we can ask them to give the full annuity which undertaking that we will not ask for any escalation portion of the land that they not handed over or second thing we can go for the proportionate annuity. In that case, we will ask the escalation for completing the balance work.

**Ankit Fitkariwala:** And second question is on the HAM, so as you are saying that we have already start trying to get some construction done in FY17 itself. So, as I understand if we do complete it ahead of time HAM, how does the modality work there going forward?

**Nitin R Patel:** See, particularly out of the five, see three contracts particularly Rampur-Kathgodam Package-I and II and this BRT to Bangalore, this has only two years of the construction period, 2 months and Gujarat package is 2.5-year construction, 30 months. So, what we envisaged that this three packages, we will be able to complete well within the time, I do not see there will be much early completion kind of scenario. Gujarat, yes obviously it is possible but particularly in HAM, there is no much bonus basically amount has been given by authority for early completion. So, incentive as what is there in the Mysore-Bellary kind of project actually.

**Ankit Fitkariwala:** And just one last thing, since we had the call 10 days back, what has changed on ground in terms of toll collection in terms of execution anything that you want to highlight?

**Nitin R Patel:** See, collection we will start obviously from the second of as what government has mentioned and another for 13 days up to 15<sup>th</sup> of December, government has allowed old Rs. 500 notes for collection. So, I think there will be some smoothness will be there. So, there will be not much haste. Post 15, I think everybody will be in a position to have a point of sale machine as well as this Paytm or everything. So, everybody has started installing them and all the truckers and everybody will be given the instruction that next time whenever they come, they should come with the card or these kind of scenario, otherwise they may have to stand into the queue or that

kind of situation, but we do not see any other problem except for that basically the reduction in the traffic we are envisaging because the economic activity has been slowed down to some extent but that period depends upon what we are seeing that at least say one to two months period will be there. We have to envisage and according to that, we already started writing to authorities that this is completely change in law kind of situation and force majeure kind of situation. So, anything the hit which is coming as compared to the previous period that is on the account of the client actually but that we will take up with separate contractual terms.

**Ankit Fitkariwala:** Just one last thing on this, so now we have not received any compensation till now, right. So, what happens to the November payment that was supposed to be done to the end of the month, so won't that lead to stretch in working capital also?

**Nitin R Patel:** See, that has been paid by us actually to all the lenders yesterday itself. Everything has been through and NHAI has also come with the circular yesterday only that how they will release the payment. I think now the things will be normalized within at least 10 to 15 days and everybody will get their dues and that money will come back.

**Ankit Fitkariwala:** So, NHAI sales that they will do it in 15-20 days, is it?

**Nitin R Patel:** So, once we submit all the documents what they have mentioned in the circular, so I think within 4-5 days, they have asked that we will release the payment.

**Moderator:** Thank you. We will take the next question from the line of Akhilesh Ankara from JM Financial. Please go ahead.

**Shubhdeep:** This is actually Shubhdeep from JM. Just wanted to understand on a consolidated basis, what would be the net debt-to-equity as of now?

**Nitin R Patel:** See, as consolidated Sadbhav Engineering, you mean to say that total?

**Shubhdeep:** Yes.

**Nitin R Patel:** SIPL consolidated debt is to the tune of 8,200 crores and Sadbhav Engineering standalone is 1,170 crores what I have mentioned. So, that is just we have to add these two that is the consolidated.

**Shubhdeep:** And how do we see this debt number probably changing over the next two to three years, you are actually going to see a better debt-to-equity ratio going ahead as you know more projects come in, more EPC execution are happening?

**Nitin R Patel:** See, 2 to 3 years basically what we are envisaging that there will be a sizeable transaction in SIPL level also pertaining to the assets which we are owning. So, normally when the assets got

refinanced and all basically stuff has been at all normalized, we utilize the tail period. So, the maximum valuation kind of scenario we are reaching closer to the same and when the asset is very clean because all the SIPL, there is no any kind of basically delays, any kind of damages and the assets have been constructed largely wise Sadbhav Engineering only. So, this kind of comfort is already there. So, this is the one process. We are seeing that some good amount will come at SIPL level and this will be a continuous process going forward because new projects will also be added and it will be also completed by the company. And in Sadbhav Engineering level because there is no any other requirement of infusion to support to SIPL is pending unlike the last year because Q3 FY16 we can say FY16 Q3 onwards, SEL has stopped giving any basically amount to SIPL, everything is being managed by SIPL only on an independent basis. So, till then Sadbhav Engineering was supporting, so that is also not required. So, whatever cash generation and whatever basically money will come back now within the system, so everything will be utilized for the purpose of reduction of the rates. So, Sadbhav we are seeing regularly the reduction in the debt on the Q4 onwards, even Q4 also we are envisaging some sizeable reduction in the debt if all these as I have mentioned the payments are coming through that will be utilized for the repayment of the debt only.

**Shubhdeep:** Secondly, also just wanted to understand that from a consolidated profitability perspective, I understand that last year we had some losses but how do we see that number moving ahead, is there any guidance that you would like to give?

**Nitin R Patel:** See FY18 onwards, we are seeing that still basically the depreciation will be there for all these assets, BOT assets particularly, but on the consolidated basis, we are of the view by FY18 and we will have the positive numbers as a whole because SIPL will be generating the sizeable cash also, further the cost of fund is also going to be reduced from current level and the traffic numbers are also improving and as if some of the couple of assets can get through by the end of FY18, so definitely it will further give the upsize in the overall profitability of the group as a whole.

**Shubhdeep:** So, by FY18 we are looking at positive PAT?

**Nitin R Patel:** Naturally. See, because in SIPL cash generation we are seeing almost 325 to 350 crores of the net cash generation basically out of the SIPL activity.

**Moderator:** Thank you. We will take the next question from the line of Vibhor Singhal from Philip Capital Please go ahead.

**Vibhor Singhal:** Just to harp a bit more on the demonetization impact, now that we are at the beginning of December, so specifically for the month of November, did we not face any kind of slowdown in our execution because of maybe the trucks with the raw material may be standard at some places or may be the labor not available for the just first week after the demonetization which

is something which many of the other peers have alluded to. So, as per your expectations the month of November we did not see any kind of slowdown in execution per say?

**Nitin R Patel:**

See, particularly so far material is concerned, construction material, so almost all the materials are coming through the channelized mode. Say for example, bitumen we had a direct contract with the oil companies actually. Steel also, we had a direct contract with all this sale even Tata and Jindal basically. They are directly supplying the steel and even for the cement also because we do not have some kind of agent kind of scenario in the company as a whole and invoicing is coming directly from the companies itself. So, they have channelized transportation network, so there is no any other problem so far as the availability of the material is concerned and as far as the labor payment and availability of the labor and cash availability for them because as I have mentioned that each and every worker in the company, even sub-contractor labor also covered under the PF and the minimum wages that every month we are vigorously monitoring. Unless and until the PF has been paid for the previous month, we do not make payment to the even labor contractors for the next month, so that is the policy has been followed by the company since long actually. And also the direct credit system has developed also since long because large number of banks have the branch alongside and we are also having some tie-up out of our own banking setup that everybody has the payment directly in their own accounts. So, they can utilize this facility. So, that is why there is no much challenge and second thing, we have already started that all the labor payments we are making every 15 days as compared to other industry, I do not know what other practice but that is also helping us to have the continuous availability and timely availability of the laborers across all the projects actually.

**Vibhor Singhal:**

Net-net basically we have not seen any impact on the execution in November and so probably that will be the case for the third quarter as well.

**Nitin R Patel:**

Exactly. As of now, no such impact.

**Vibhor Singhal:**

So, just lastly on a bookkeeping question. You mentioned that the MAT credit that we have will probably see us through the next 4 to 5 quarters, so for the next 4 to 5 quarters also do we expect the tax rate to be nil or may be somewhere in the range of let us say 5% to 10% or will it be sufficient to take care of the tax compliance for the next 4 to 5 quarters itself?

**Nitin R Patel:**

See, particularly Q3, Q4 and Q1 of FY18 are of the view, tax will be nil actually. It is a large amount of the turnover will come, then after we have to see what is the quantum of HAM is coming as compared to EPC because HAM will also start generating the topline from Q4 but obviously FY18 it will start shooting up actually because even all five EPC will have a full-fledged construction in FY18. So, ten projects will have and plus whatever new is coming on the ground that will further add. So according to these, we have to see this what new business

is also coming but again from whatever new projects come post 1<sup>st</sup> April 2017, ATIA has been abolished now.

**Vibhor Singhal:** So for these HAM projects, we would still be able to claim whatever market it, we can claim in FY18?

**Nitin R Patel:** No, HAM we will not be able to claim. It will be at the SPV level only.

**Vibhor Singhal:** At the SPV level only. So, basically most of the projects, so three quarters you mentioned will probably have nil rate and after that may be some higher rate, FY19 I think we will be back to the 33% tax rate which probably e is there with the norm in the industry?

**Nitin R Patel:** Exactly. I think most of the players will come because this has been clearly abolished.

**Moderator:** Thank you. We will take the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia:** Sir my first question was on the fact that today announcement has been made wherein old Rs. 500 notes will not be allowed to be taken up at toll plazas beyond December 2<sup>nd</sup>. Just wanted to get a sense from you that if this development were to happen, will there be an impact in toll collections for us?

**Nitin R Patel:** See, frankly speaking if it has not been taken, so naturally some queuing up will be there on the site. Even though we have installed POS and Paytm, I think Vasistha bhai he will be because he is directly monitoring all these implementation, Vasistha bhai can you give some light on the same?

**Vasistha Patel:** Yes, good evening. Today I am in Delhi and discussing regarding this all SPV issues and tolling issues with the NHAI. They are also in some confusing situation because all the NHAI up to CGM level staff instructed to go on the site and streamline the situation but I think if the 500 notes are not allowed, then it is easy for us to manage because what we thought that everybody is coming with 500 notes and asking for the changes and NHAI yesterday announced that above Rs. 200, then only we have to take the Rs. 500 note. Other than that, below Rs. 200 we are not able to take Rs. 500 notes. But if today they have announced for the Rs. 500 notes also not allowed, then they have to give the changes, otherwise lot of queuing are there but still we will check that after 3-4 hours we may tell you what is the situation after 3-4 hours after starting.

**Aditya Mongia:** I am assuming that this request from NHAI which has gone to the Department of Economic Affairs of increasing the limit for toll operators having sufficient cash with them, there has been no moment on it till now, right?

**Vasistha Patel:** No, at present what happened that up to CGM level, Chairman instructed even Head Office staff to go on the toll plazas and streamline the situation and what is the ground zero reality they have on hourly basis, they are reporting to the NHAI Chairman and then after they are going to decide whatever decisions they have to take.

**Aditya Mongia:** Sure sir, that clarifies. The second question which I had was again from an SEL perspective, so if I see the debt levels at the end of FY16 for SEL standalone, they were about 1,200 crores and within that, there was a 530 crores odd amount which was given to SIPL. Now by the end of FY17, we are expecting that 530 crores amount to broadly become less than 100 crores but still we are targeting debt levels which are only 200 crores lower than last year's levels. So, just wanted to get a sense of how should we reading this thing?

**Nitin R Patel:** See, Aditya bhai frankly speaking because the money what SIPL has given to SEL has largely used for the purpose of this execution of this five EPC. Money has been infused there actually, so 100% of the money has not been utilized for the repayment of the debt and parallelly we have to see that the execution should also go very smoothly. Second thing as we have mentioned the repayment of the mobilization advance on the dot date we have already started actually.

**Aditya Mongia:** No, I am talking about by the year end when all these things will normalize, let's say you would have got the money for the EPC execution that you have done and this mobilization advance should also have come. Should we not be targeting levels close to let's say similar 500 crores decline in the debt level and standalone level?

**Nitin R Patel:** See, conservatively we are basically maintaining that it should be, see we should go with the 1000 crores numbers as of now and depending upon exactly when the money will because everywhere we are about to close in a position to start getting the money from the clients and what we envisaged that largely government agencies also because of these issues of demonetization and everything, they will also be given the sum basically amount to get cleared all their dues also. So, that will be the scenario, but as of now let us take some conservative view. If things will improve, definitely it will give the further advantage. So, we are going by taking some precise call on the same actually now.

**Aditya Mongia:** And for the 160 crores money which SIPL needs for funding the HAM project, so will that money be arranged for by SIPL or will we pumping that money in for them?

**Nitin R Patel:** Totally will be arranged by the SIPL. We have already made the arrangement through the NCDs at SIPL level itself. The sanctions and everything is there for 5.5 years actually and that cost of money is also below 10% actually. So, that will again be far better to utilize that money rather than taking anything from SEL. So, SEL will not pump anything to SIPL.

**Aditya Mongia:** Sir, related question was on interest cost. So, interest cost if I see it for 1H, if the quantum close to about 68 crores whereas your debt levels have broadly been at 1200 crores levels. This basically implies the cost of debt at 11% plus. Do you see this number correcting soon basis recent refinancing which has happened or should it remain at those levels only?

**Nitin R Patel:** See, this includes even the bank guarantee commission and everything. So, we have to take out that bank guarantee commission and everything, otherwise cost of working capital is I think average because we are utilizing that CP, commercial paper and everything. So, actually it is less than 10%.

**Aditya Mongia:** So that benefit is there in 2Q numbers and the 10% number?

**Nitin R Patel:** Yes, benefit is definitely there in. Going forward, it will continue to be there and further reduction we are envisaging across all basically the cost will also come down.

**Aditya Mongia:** The next question is on margins. So, it is heartening to see that in 2Q while the mix of BOT and cash contract in execution has completely reversed, we still have been able to make decent margins at this point of time. Just wanted to get a sense from you of what EPC margins we are booking for the cash contracts right now for the EPC projects right now?

**Nitin R Patel:** If you see historically company as a whole during last 10 years, the road sector has consistently generated between 11.5% to 12% of the EBITDA. The irrigation was less and mining, so all put together obviously the margin level in the road sector we do not have basically seen any reduction, even last deduction in the past also bearing the particular quarter is something, some kind of activity is there and which is large activity. So, there the margins are less. Otherwise, the things are in a far better position. Second thing, the situation is that currently the steel prices if you see even bitumen prices also, even diesel prices are also on a contracting yield curve, it has got corrected and because of that, even cost of material that has also came down and parallel, the impact in the WPI and CPI is not that much negative. How we are getting the price escalation on the same. So, if you see during last 4 to 6 months actually, again the price escalation has gone up to 4% actually and against that the price of all this construction material has gone down. So, we are getting the money from the client based on the percentage of WPI on every month-on-month basis and the benefit of the reduction in the price has also came in the quarter also.

**Aditya Mongia:** Should we be assuming any one time impact from the irrigation sector as execution picks up in 3Q and 4Q?

**Nitin R Patel:** See the benefit is that what we can say burning or pain item has been completed and largely now we are in a fag end of the completion. So lot of money basically which has been hold up or some, we could not get it accounted that will start coming out in the final bidding, even in EPC historically in large number of projects basically we get a payment after completion of

basically with the projects and also some of the amount the client is getting released once we complete all the cross section and everything. So which normal during the course of execution, we are not able to get through. So this will definitely help something. So, something better will come up from the irrigation also for a coming period of time.

**Aditya Mongia:** Sir, just wanted to clarify on this point which you made earlier. Your escalation is linked to WPI and it is not linked to the actual price of let us say key commodities.

**Nitin R Patel:** Currently, the EPC projects basically it is WPI linked payments. Even in hybrid annuity also, it is the WPI and CPI. There is a 70% WPI, 30% CPI. So, as of now with 3,128 crores of the hybrid, all put together almost around 150 crores of the price escalation has already been incurred on the same now based on the current pricing, so that we are not adding in to the order book and everything but actually we will get that money from the client without actually increase in any of the material prices of the current level.

**Aditya Mongia:** And lastly on HAM projects, should we assume a similar margin profile, similar to what the EPC contracts are giving us.

**Nitin R Patel:** Almost it should be within the same range bearing some 50 basis points to 70 basis points we may get extra because HAM we have the bids we have submitted at reasonably comfortable price. Even in EPC also, what we have taken we are not much lower than the NHAI estimated cost. Hardly, it is 1-1.5% to 2% lower than the NHAI estimated cost. So, that is why there is no compromise in the bidding even in EPC in the previous stage.

**Moderator:** Thank you. We will take the next question from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

**Bhavin Vithlani:** Most of the questions answered. The only thing is 10 days ago in the SIPL call, you mentioned that the underlying commercial traffic you had seen a drop of about 20 odd percent. Any update on that in the last 10 odd days, have you actually seen any pickup in the activity or at the similar level?

**Nitin R Patel:** Every day we are keeping the record actually, so some reduction is there actually but on project-to-project, it is different. So what we envisaged that the movement of goods particularly where the city bound traffic where the real estate related traffic movement is high or there, the impact may be a little bit higher. But on an average we are of the view the same say within that range bearing 4%-5% here or there the situation persist.

**Bhavin Vithlani:** Sir, no improvement currently.

**Nitin R Patel:** I think it is not debt. Let us see the actual toll how it is. Particularly sometimes what has happened in Rohtak-Panipat, the traffic which is flying, it is almost per day 40 lakhs of the toll

traffic is going on because now it is free. So everybody is using the road now. That is something. So once the toll will start, then things will, how it will come on the normalization, so if required we will come with every 15 days number to the market actually. So that what is happening, everybody can gauge out it.

**Bhavin Vithlani:** Second thing is we have been reading that the government has been pushing for cash less tolling or the RFI. So, if you could give us some picture, I mean Vasistha bhai said he is currently at the NHAI's office. Some color on that would be very useful.

**Nitin R Patel:** Vasistha Kumar, Bhavin bhai wants that RFI and other this noncash tolling, what is basically NHAI's view and how we are planning actually. So, what is our plan? So he wants some idea about it from you.

**Vasistha Patel:** Good evening Bhavin bhai. Earlier before 2-3 months, earlier NHAI introduced the tag particularly independent tagline for the cashless transaction. So, we have already constructed that tag particularly the tagline, each toll plaza had a four tagline. So, NHAI is planning for a cashless transaction at the toll plazas and after this demonetization, so already we have introduced the POS also in each toll plazas and they are monitoring with the new say after this 12'o clock, we have seen it most probably all the transport division and transporters they are using the credit cards and other cars and every other thing, we are trying to give the advertisement to the newspaper also and NHAI is also giving the newspaper advertise for the cashless transactions. Hopefully, we are trying to may be after this year 6 months, 30% to 40% transaction are cashless what we are expecting from the NHAI.

**Nitin R Patel:** Bhavin Bhai, currently each and every lane we are installing the point of sale equipment and the Paytm agreement we have made the agreement with the Paytm also, but what we understand that this is not the permanent solution, time being we can do that if there is no change so but it is also time consuming mechanism. So, the trust will be there, the maximum number of ETCN, what we understand that this will definitely basically encourage everybody to take the ETC tag so they can avoid the lines and they can go through. But what Vasistha bhai has told that within 4 to 6 months, the 40% of the traffic will come under the automated that will also be one of the big achievements what we understand, but definitely we have to see that the situation how it works on the ground once the actual toll gets started.

**Bhavin Vithlani:** So, what we are hearing is in a month the government is targeting to roll out the ETC tags Pan India. So, you are not hearing similar things?

**Nitin R Patel:** See, they have already instructed the 2 banks, Axis bank and ICICI has been mandated for the same and I think that now the actual increase in the issuance of the number because you see there are almost around 75 to 80,00,000 lakh commercial vehicles are there across the country and to cover this itself required a lot of time. So, may not be a mandatory as of now, but later

on government may think that all the new vehicles or the vehicle which is coming for the renewal of their, basically the annual renewal of this permit and everything. So, mandatorily they have to take the ETC. So, this system itself will take some time to complete the whole scenario. So it can be on a slower basis actually.

**Moderator:** Thank you. We will take the last question from the line of Akhilesh Ankara from JM Financial. Please go ahead.

**Akhilesh Ankara:** I have some questions, mainly one question with respect to your HAM projects. What is the kind of IRR do you envisage like the kind of if you think about the long run. So how do you envisage the IRR may be in terms of like the approximate figure do you internally budget for each of your projects may be if that thing if you can throw some light on?

**Nitin R Patel:** See, Akhilesh bhai just I would like to give the update, I think you might well aware about what this entire business model. So, Sadbhav Company and group as a whole, so business model is like this, there is some margin we will be able to take during the construction phase, number one. Number two, the return on the investment will continue to come because of the activity. Here in hybrid, more beauty is that there is a direct payment is coming from the authority on a regularized basis. So, even interest and everything is being paid by them on a regular basis, so this is second thing. And third thing, the O&M margin the operation and maintenance because first year we have to quote the first year's amount and every year it got escalated depending upon the WPI and CPI. So, all put together if I see given historically also even for this hybrid annuity, we are of the view that company will be able to make minimum, say 25% to 27% of the IRR on the overall equity investments as of now because earlier hybrid annuity what company has taken that has come at the parameters what we actually want actually. And now going forward, we have to track that how the competitive intensity is there, which kind of projects and now which is the least which NHAI has given as I have mentioned in my earlier remark today. So, even large numbers of projects are there which are beyond the Rs. 1000 crores and also three, four projects are above 2000 crores also now came for bidding for this hybrid annuity.

**Akhilesh Ankara:** Just if I could ask, how much IRR you would be meeting, only for the toll part of the business like if you just keep aside O&M and the construction margins just for the toll and the road whatever the intangible assets should be holding on the balance sheet, only for that what kind of IRR you would envisage?

**Nitin R Patel:** See over the period, but currently the ....?

**Akhilesh Ankara:** Over the period?

**Nitin R Patel:** Roads what we are having if I consolidated entire in toll investments, so that 2100 crores of the investment we have so far made in the earlier projects. So, that 2100 we are expecting at least

current level around 23% to 25% of the overall IRR post FCFE for the balance life cycle of the entire projects actually.

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

**Nitin R Patel:** Thank you very much to all the participants who have taken their valuable time for understanding the Q2 FY17 numbers and as we have discussed now, there are two, three things basically overall group level obviously post this, starting of the toll we have to monitor on daily basis what is, how we are able to easily mitigate the situation on the ground, number one. Second thing, the construction fees as we have discussed in very detail, the things are well within the track and the focus also coming basically two quarters to three quarters will be there to start getting the payments from all the completed projects largely in the irrigation sector because all the works of joint venture partners what company has taken over, company has infused significant amount of the working capital in the same and we are expecting now at the completion we will start getting the actual amount from the clients. So, that will give the clear picture again within the one or two quarters. So, this is broadly what we are in the focus and as I have mentioned bidding activity particularly in the road sector will be robust because normally the quarter three and quarter four where the authority and the Ministry has to achieve their targets. So, they will basically come with the bids will continuously to come on a regular basis for at least four months from now and that I think will be sufficient to build the order book position for the company for coming two to three years actually. So, that is from my end. Again, thank you very much to all for taking their time. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.