



“Sadbhav Infrastructure Project Limited Q3 & 9
Months FY18 Results Conference Call”

February 05, 2018



MANAGEMENT: **MR. NITIN PATEL – EXECUTIVE DIRECTOR, SADBHAV
INFRASTRUCTURE PROJECT LIMITED**
**MR. VARUN MEHTA – CHIEF FINANCIAL OFFICER,
SADBHAV INFRASTRUCTURE PROJECT LIMITED**

MODERATOR: **MR. DEVAM MODI – EQUIRUS SECURITIES**

Moderator: Good day, ladies and gentlemen and welcome to the Q3 & 9 months FY18 Earnings Conference Call of Sadbhav Infra Project Limited hosted by Equirus Securities. 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Devam Modi from Equirus Securities. Thank you and over to you, Mr. Modi.

Devam Modi: Very good afternoon to everyone who has taken the time out to join the call. We are pleased to host the third quarter concall for Sadbhav Infra and we would like to welcome Nitin bhai and Varun to the call. I would like to hand over the call to them now to provide the updates and then take the Q&A thing.

Nitin Patel: Fine. Thank you, Devam bhai. First of all good afternoon to all the participants and the members who have taken their valuable time for understanding the business of the company for the Q3 and 9 months ended December 2017. Now on behalf of Sadbhav Infrastructure Project Limited, I warmly welcome all the participants to the earnings call for the quarter ended. I would take you through the first bidding scenario initially along with GST update for Maharashtra border check post project and then for financial numbers and operational performance. I will request Mr. Varun Mehta will take you through the same.

Now first looking to the bidding scenario, in the current financial year started from January till today, we have submitted 11 bids under NHAI hybrid annuity of length 533 km worth 12,356 crores. Out of these 11 bids, Sadbhav Infrastructure has won one project that is Jodhpur Ring Road project of length 74.62 km valuing worth 1,076 crores and there are 5 more bids of length 152 km worth 5,759 crores which are yet to be opened. We expect results for these 5 bids I will be announced in next couple of weeks. In other 5 bids, Sadbhav Infra is somewhere between L2-L7. Also, we had submitted two hybrid annuity bids under Karnataka State Highway Implementation Project that is KSHIP of length 304 km worth Rs. 1,803 crores where the SIPL was declared second lowest L2. Now, the average number of bidders above all 13 bids were approximately 6. Now the bidding activity has definitely picked up from the start of this year as compared to slow bidding activity up to December even we had discussed during the couple of last 2 quarters conference call also. Now as per the NHAI website, now there are 86 hybrid annuity projects of length 4,445 km valuing worth Rs. 84,257 crores for which bids are to be submitted before end of 31st of March 2018. These are some very big and huge numbers. Obviously, there might be certain slippages to the extent of 15%-20% in this number, but still we think the number by March end would be very sizable one. Also as against this, we see the competition and we expect it is to be little bit high for initial, initially that is up

to 9 bidders initial between 10 to 15 bids. And also the reason is that since bidding activity from NHAI was slow in the past 3 quarters, the most of the players who had won HAM projects earlier have achieved financial close by now. However, post that, we expect the number of players in bidding to reduce only 4 to 5-6 numbers only and this will provide the ample opportunity to get the sizable projects with incremental margins also. We at SIPL are geared up to take this opportunity in all front, actually. This is in relation to bidding what I had basically mentioned so far.

Now coming to the updates on the Maharashtra border check post in relation to GST, the NIC, the National Integration Center which is governing directly and reporting to the central government and which has been mandated by Central government to implement the E-way bill system across the country. So has already visited all the basically facilities of Maharashtra border check post along with the other relevant state authorities also. So after this all basically, their visit, we have restarted getting the official communication and now the GST department as well as Maharashtra border check post through basically all these departments have directed us to integrate Maharashtra border check post software with NIC so that the system of E-way bill in the Maharashtra can be implemented. Certain software changes have been suggested by NIC and our IT team is working with them so that MBCPNL Project will be utilized by GST department to implement E-way bill across the state. So this is basically the reason why I had mentioned that obviously we have heard basically all certain concerns across the borders basically pertaining to this project. Now, it is officially communicated and now the system is under up for upgrading towers to match the E-way bill requirement. So I think this will give the clarity among all actually. So this is what I would like to mention as of now. Again, I am very much thankful to all who have listened to me and now I will request basically Mr. Varun Mehta to discuss the financial numbers and all the operational performance of SIPL project for better understanding. Thank you so much.

Varun Mehta:

Thank you very much, Nitin bhai for giving the useful insights and definitely the bidding scenario looks sort of quite promising after a lukewarm last three quarters. So I think this year basically we are seeing a good bidding scenario.

Probably, I will start with the financial results and then probably we can discuss the operational performance and then we will open up the Q&A session. I am sure you must have seen the media release for the financial results which was shared on Friday and was a bit revised today also and I am sure you must have seen the SPV wise toll revenue data shared with the stock exchanges on 8th of January. The breakeven between the operational SPVs and under construction SPVs and the SIPL standalone has been provided in the media release and since the Q3, there is a YoY comparison is not possible because Q3 FY17 was impacted because of demonetization because almost say around 26-27 days that entire tolling was stopped and Q2 basically being a seasonally weak quarter, we have compared the toll revenue numbers of Q3 FY18 vis-à-vis the first half of FY18. The total cash income for all the

operational SPV during Q3 FY18 stood at around 276.83 crores. This number includes NSEL annuity receipt of 5.21 crores. This translates to a daily toll revenue of Rs. 3.01 crores versus Rs. 2.83 crores in first half of FY18 which indicates a growth of 6.3% and this growth is mainly due to the traffic growth in each and every project. We will discuss the traffic growth in my other remarks also. The entire cash EBITDA from the operational SPV stood at around 234.65 crores during Q3 FY18. The cash EBITDA margin in Q3 FY18 stood at around 84.76% versus 84.33% during first half of FY18. There has been an increase in the EBITDA margin by around 43 basis points which is due to the strong growth in the traffic volume.

Just mentioned in our various earlier concalls also that probably we are seeing an incremental cash profit in each and every quarter. In this quarter, we have seen that the same trend has been continued. So the cash profits on the operational SPVs has increased from around 36.5 crores in Q1 FY18 to Rs. 41.78 crores in Q2 FY18 and in this quarter Q3 FY18, we have achieved a cash profit of 57.90 crores. So probably, almost in each and every quarter, we have seen a decent amount of cash profit addition. We anticipate this amount of cash profit to increase further in Q4 led by strong toll revenue growth because in the month of January also, we have seen a decent amount of traffic growth in each and every projects. In fact from Q1 FY19, we should see that there should be a cash profit jump in each and every SPVs because of the toll rate growth in all the projects that come from 1st of April bearing couple of projects which is Ahmedabad Ring Road and Aurangabad-Jalna and there will be an 18% toll rate growth in Maharashtra border check post which will provide sort of big change in terms of the entire revenue and the cash flow metrics also.

As mentioned during the last concall, we have retained the revenue guidance on the operational SPV for FY18 to around 1,075 crores excluding Mysore-Bellary annuity and the cash EBITDA margin from the operational SPV shall remain at around 85%. So probably the 9 months actual numbers are also in line with probably what we had guided earlier also. The total cash income from the standalone business during Q3 FY18 stood at 93.45 crores. Cash EBITDA during Q3 FY18 stood at 67.42 crores which translates to an EBITDA margin of around 71.95% versus the EBITDA margin of 59.06% in first half of FY18. The increase in EBITDA margin which is broadly around 1200 basis points is due to the increase in the maintenance revenue from the HAM projects because we have started booking the maintenance revenue for the 7 HAM projects. So the EBITDA margin increases because of that and it shall continue for the next at least 6 to 8 quarters. The entire cash profit from standalone business has increased from around 11.32 crores in Q1 FY18 to around 26.11 crores in Q2 FY18 to around 29.26 crores in Q3 FY18. There has been a substantial increase in the cash profit at the SIPL standalone level also. Both put together that is the operational SPVs and the SIPL standalone, the cash profit has increased from 47.82 crores in Q1 FY18 to 67.89 crores in Q2 FY18 to around 87.07 crores in Q3 FY18. Probably, we can see there is almost 20 crores of incremental cash profit which has been added on quarter-to-quarter basis. So till date in the first 9 months of FY18, we have generated a cash profit of 202.78 crores and this

number if I compare with first 9 months of FY17, this number was 118 crores. So the entire refinancing activity which we were doing and we have completed almost 7 SPV refinancing and plus a steady traffic growth from the month of September, we have seen the incremental cash profit is coming because of this two reasons.

SIPL has a current order book of 303 crores towards routine maintenance of 7 HAM projects which is to be executed over a period of next 18 months. Major maintenance of Dhule-Palesner is currently in progress and the balance order book from Dhule-Palesner major maintenance is around 30 crores and it will be completed probably by end of March 18. The major maintenance in Bijapur-Hungund and Hyderabad-Yadgiri shall commence in the current quarter and the total value for the SIPL proportion is expected to be around 120 crores with the total outstanding order book from all the above comes to around 454 crores which has to be executed in the next 18 months. So the SIPL standalone revenue will also have reasonable size in the next probably 18 months at least.

The entire consolidated debt of the operational SPV as on 31st of December 2017 is around 7,008 crores. The consolidated debt for the under construction SPVs is around 253 crores and standalone debt is around 1255 crores, so it remains at the same level as last quarter. The average cost of debt during Q3 FY18 in the operational SPV excluding Rohtak-Panipat and Rohtak-Hissar stood at around 9.8% versus 9.84% in Q2 FY18, but with the completion of refinancing of debt in MBCPNL and BRTPL in this current quarter, the cost of debt should come down to around 9.18% and the cost of debt right now in Rohtak-Panipat and Rohtak-Hissar remain at a high level of 11.7%, but probably we are working in Rohtak-Panipat where probably once the arbitration proceeds come in, we can do to refinance the debt and we can lower the cost in that also.

Now coming to the operational performance during the quarter, the updates on the 7 HAM projects won by SIPL is as follows. Sadbhav Rudrapur Kathgodam package won, the entire construction is going on as per schedule and we have applied for the first grant on 31st of January and we expect that the first grant should be received in the next couple of weeks. Second package Rudrapur-Kathgodam package 2, the appointed date was received in the last quarter that is on 28th of October 2017 and the construction is going on. We have mobilize the site because the first package construction is going on, so we have the entire resources available. We have applied for the mobilization advance in this project and we should expect it before the end of March.

Bhavnagar-Talaja, the construction work is going on satisfactorily. We have received the first grant also from NHAI and the work is going on smoothly in that project. Una-Kodinar, the construction is going on at a fairly reasonable speed as per our planned schedule. We have also applied for first grant in this project on 15th of December, so probably any time we will receive the grant in that project also. And the fifth project which is BRT Tiger Reserve Boundary to

Bangalore section, construction is going on as per plan. So we have almost 4 to 5 months has been completed in that particular project of construction. We have received a mobilization advance of around 100 crores in that particular project. Udaipur bypass, appointed date for this project was received in the last quarter that is on 30th of November 2017. We have applied for mobilization advance and we should expect that mobilization advance should be there before end of March.

The last project Waranga-Mahagaon, we have achieved the financial closure for this project in Q3 and probably we are just awaiting for the appointed date because there are certain land acquisition is going on onsite. So probably once we receive the minimum 80% of the land without any encroachment, we will start the construction post that. So I think for this also, we anticipate that we should receive the appointed date before the end of March. So I think in the 7 HAM projects, we are fairly sort of confident of achieving the CODs within the scheduled timeline. And in all these 7 HAM projects, we have till now infused equity of 184.22 crores and the entire equity has been infused by SIPL from the internal accruals because as I just mentioned, we have done a cash profit of 202 crores so that has been utilized to sort of put in the equity also in this project and some amount of the cash profit has been utilized for the scheduled repayment.

Now coming to the operational updates of the various operational SPVs. Talking about the YoY traffic growth during the quarter, probably the traffic growth is as follows. Maharashtra Border Check Post, the traffic growth stood at 9.2% which is a very strong growth which is coming from 16 different check posts. So probably it is a good sign what we have seen probably in the next few months or say probably few quarters they should continue. In Bijapur-Hungund, the traffic growth stood at 18.6%; in Dhule-Palesner, the traffic growth stood at around 10%. Rohtak-Panipat, which probably in the last 3 quarters, it has outperformed. So there we have seen a traffic growth of around 30%. In Rohtak-Hissar, we have seen traffic growth of around 10%. In HYTPL, we have seen a traffic growth of around 27%. In Ahmedabad Ring Road, we have seen a subdued traffic growth of only 1%, but from 10th of October probably, the tolling of the car traffic has been stopped by the government of Gujarat. So probably car traffic was a bit of an issue in this project. So now probably from Q4 onwards, we should definitely see a good amount of traffic growth because in the commercial segment, there was a reasonable amount of traffic growth. In Aurangabad-Jalna, the traffic growth was somewhere around 4%. In Shreenathji-Udaipur, traffic growth was around 1% and in BRTPL, there was a degrowth of around 1%. So the traffic growth has been remained lower in probably Shreenathji-Udaipur and Bhilwara-Rajsamand because there were certain issues in relation to the GST on the marble products which was going on which is one of the major contributors of the traffic in the project. So because of that, we have seen some amount of reduction in traffic in both these projects.

However, the overall traffic growth for the portfolio is around 11.7%. So probably we have seen this is the first quarter where we have seen started seeing the double digit traffic growth and probably the way I think the entire expectation of probably the government, RBI and various international agencies also if the economy moves in probably more than 7% traffic growth, we expect that probably we can see this to sustain for the next few quarters because in the past also, we have seen double digit traffic growth sort of can sustain for probably around 4 to 6 quarters at least. So the daily toll collection for January 18 that is for the last month stood at say around 3 crores which is almost in line with the Q3 FY18 numbers. So I think the growth has continued even in probably in the first month of the 2018 year.

In terms of refinancing, right now we are in the process of completing the refinancing in Maharashtra Border Check Post and Bhilwara Rajsamanad. We have received the sanction for both the projects. So in case of Bhilwara, we are just awaiting the approval from NHAI and in case of Maharashtra Border Check Post, we are probably in the final stage of documentation. Probably, we should complete it by March 18. So I think FY19 is the first year where probably we will see the entire refinancing activity and where we have seen the reduction in the course will be translated for the full year because still now we have seen on a quarterly basis that has been contributing and plus the traffic growth which probably we have seen in Q3 and in the month of September also. So that continues and then definitely we are seeing a sort of good cash flow probably in FY19 and the years also ahead.

So I think with this, basically we sort of complete our opening remarks and I once again thank you very much for listening to the opening remarks. Now, you may please start the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Mitul Shah who is an individual investor. Please go ahead.

Mitul Shah: My first question is that when we would see the actual profit on the net consolidated basis?

Varun Mehta: See on the book profits, you see what is happening if you see our results also, so in that there is a PAT loss of around 41 crores for this quarter, but because of this which has happened because of IndAS. So there are many non-cash expenses like probably we have seen in case of the premium payment and there are certain non-cash event of the provision for MMR also. Because of that, we are supposed to book this non-cash expenses in the books of accounts and because of that, we are seeing a sort of book losses probably in this quarter also. So I think we anticipate that or probably we are hopeful that probably the way the things are running probably by next year or say by FY20, we can anticipate sort of book profit in the consol account. But probably in terms of the cash profits, we have seen a good amount of cash profit generation there.

Mitul Shah: What is the overall growth projection for you? I know it will be majorly depending upon the bidding. But what are our chances to get the projects out of Maharashtra as well as the new project which are happening after long time?

Nitin Patel: Just tell me that in hybrid annuity more particularly as I have mentioned that the number of bids which have been lined up, there is very significant and perhaps this kind of situation coming at least once or twice in a decade actually. Second thing, the most important part is number of bidders are very less. So definitely what is going to happen that around once 8-10 bids, 15 bids will go, so the number of competitors will go down and down actually. This is what we are envisaging. Second thing, considering the size and what the company wants to execute basically in highway sector per se, so what we are digging that certain EPC contracts almost are getting completed by March for large number of EPC basically the team that equipment and everything is getting free. So definitely this will have a further appetite for the company and even Sadbhav Infra will also try to see basically the number of projects may come up, but what we see that going forward rather than the projects, the margin level should also go up particularly in most of particularly hybrid because the competitive intensity will be helpful for creating the bidding environment more fruitful for the company.

Mitul Shah: But sir, just I wanted to understand out of 80 projects, if we work 100%, how much projects can we get, how projects when we execute that is I want to understand.

Nitin Patel: On an execution front, I can tell that on an average, we are very much comfortable to take the business to the tune of almost around 700 to 900 km of the business on our, basically because Sadbhav Engineering per se in past also has demonstrated and even currently all the projects which are going on, even I can say that the EPC projects what we have taken up, all the projects are going to be completed well within the time schedule. So the resources which will be available, this will definitely add up further. And going forward as we have indicated that our target for the order book for the year was almost around 7,000 crores. So as of now till now we have already taken around close to 4,500 crores of the new orders in the current year, so balance we will be easily able to achieve, but rather we are quite hopeful that we may build further basically order considering the strong pipeline in the HAM as well as EPC put together.

Moderator: Thank you. The next question is from the line of Saurabh Sultania from ICICI Securities. Please go ahead.

Saurabh Sultania: So I just wanted to know what is the order book that you are looking forward for FY19? Second, I think you have ordered on the profits. So when are you looking to break into profits? And third is are you looking at diluting your stake also?

Nitin Patel: See related to your first question, basically the order book, see Sadbhav Infra particularly definitely will be happy to build the HAM portfolio considering very minimal risk profile in

the business model. Second thing as we all know that 40% is being funded by NHAI upfront during the construction phase, also the price escalation, risk and everything read through, so more or less particularly what we understand that this is more or less arranging the funds and creating basically putting our execution skill and arranging the funds largely for the government of India for at least 2.5 years period of time and then after definitely all the repayment and everything is being undertaken by the government through the sovereign guarantee and this will definitely tempt us to build a little bit strong order book. Even in past also, I can give the example that so far NHAI has called by December I can say that almost around 65 bids and out of 65, Sadbhav has put bids for almost around say 45 and out of 45, we won 7. In January after basically this 11 which has been submitted, out of which the bids for 6 has already been opened. Out of 6, we won one actually. So this is the parameter and the way the bids are there. So we are quite okay that we may add at least around 3,000 crores worth of their business by March and for coming year also, we are quite hopeful that before September, there will be enough business in the kitty of both SIPL as well as Sadbhav Engineering.

Saurabh Sultania:

So interest rates are likely to go up and how will it impact your cost or capital, do you see that for the reduction you were saying 9.18 we are hopeful to bring it down to. So with suppose the interest rates do not change in favor, are you still hopeful of that?

Varun Mehta:

See basically as of now, we have out of this 7000 crores of debt, we have almost around 1,200 crores of debt which have been raised by way of NCDs. So that probably we have a lock-in interest rate of 3 years. So probably there is not a much impact of the increase in interest rate in that. On the balance loan which are linked to the MCLR or say the base rate of the respective bank. So I think as of now probably the bond yields have gone up, but we have not seen much amount of action or say much amount of rate hikes by the banks also. So we do not see that probably that the rates from the bank picking up to a large extent at least in the near future and see anyway there is a rate pickup, so if the reason for the increase in the rate pickup is inflation, then definitely our toll rate is linked to WPI, then our toll revenue will also increase to sort of that extent. So probably in a way we have the entire tolling business is something like a natural hedge what we have, so there will be some amount of compensation by either inflation or by interest rate be sort of whatever rate moves ahead, be it positive or be it negative and on the interest rate reduction, yes, definitely we are working still probably on the interest rate reduction. We are in the process of sort of working on the bond issuance for this SPVs because in the first round of refinancing, what we have done is we have increased the credit profile of the SPVs from BBB category to A category. So right now most of the assets where we have done the refinancing are in A category. So our planning is to sort of increase the rating from A category to the AA category. So with that, what happens that the entire market of the capital market can be opened up because right now for A category, there is not much amount of capital market or say the bond market which is there. So probably there is sort of significant difference in the interest rate between AA category and A category and plus there will be a shift from RTL to the bond market. So I think definitely within the same

category or also in the past we have seen that the bond market pricing for a particular category of bond or say for a particular category of debt is lower than the bank loan. So I think with these two points, we definitely see that there is a room to sort of reduce the rate from 9.18 to probably say at least 100 basis points from there onwards. So we are working on that. So probably it is a process. So we will update to the market as and when we are there in the transaction.

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

Viral Shah: Just couple of questions. Want a clarification, are we incurring any cost for this upgradation at Maharashtra Border Check Post?

Nitin Patel: Actually, the NIC has their own software which is developed for nationwide actually. So they want to just integration of this along with our existing software facility because in Maharashtra Border Check Post, all the check posts are interconnected and also centrally connected to the Mumbai, Central Control Room through its own dedicated basically linkages with the data network all these networks and even speed as well as even all the data which can be transferred is very high actually which government has designed for coming 50 years keeping in mind actually. So, we are not incurring any other additional cost, but definitely this will allow us to take some incremental revenue in terms of obviously once the additional department will start looking into the same. So to fulfill their requirement, whatever arrangement needs to be done at check post level, this will add the revenue for us.

Viral Shah: Secondly sir, what has been the reason for such a high traffic growth in some of the projects?

Nitin Patel: See particularly the commercial traffic across the country has moved in a very positive direction because once the GST, the clouds are getting lowered and we have started seeing the activity across the country has improved and this is not only that the base was lower and we are comparing the Q1, Q2 and Q3 itself and probably from the September onwards, we have started seeing the incremental growth. Now the January is already over and has indicated by Varun bhai we have seen there is also decent growth as compared to the YoY as well as what was there actually on the average of September to December. And more basically growth is coming from the commercial front. So because in our entire portfolio if you see on an average around 75%-80% of our revenues coming from the commercial traffic because of the high impact of Maharashtra Border Check Post where 100% of the revenue is coming from commercial traffic. So that is mainly the reason why it is seeing the double digit growth.

Viral Shah: Fair enough sir. Secondly in terms of monetization of asset, we were supposed to monetize couple of assets right, any update on that front?

Nitin Patel: See obviously the matter is we are in a very active stage now and see because of this, certain constraints at the company level for because of the nondisclosure requirements, so we will not be able to but as and when there is a something concrete will come up and the statutory requirement will come, we will definitely come in the market with a clear clarity on these.

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

Prem Khurana: Sir my first question was with respect to the claims that we have booked during the quarter of 106 odd crores for Rohtak-Panipat, just wanted to understand that the NHAI is planning to challenge this order or they are happy to pay you the amount and by when do you expect this money to come to you?

Nitin Patel: See, first of all I would like to mention that the order which we have received it is a unanimous award. It is not kind of that majority of the arbitrator has given the order and so that is all the three arbitrators has given the yes to the numbers, number one. Second thing, obviously NHAI has past record in tendency for challenging these awards basically, but now what the cabinet has given the approval that we can get it at least 75% of the money which is due that we can get it through by providing the bank guarantee. So if the authority will go for challenging, we will exercise this right and take the money as of now and so this way we can monetize from this award amount.

Prem Khurana: So that means if you were to opt for 75% scheme, would you have to reverse the entry that we have made because the number should have been booked once there was certainty in terms of whether you are supposed to get this number or not. Now if the NHAI wants to challenge this number, it could be as if it will take you some more time to get this rolled in your favor?

Nitin Patel: See, what we understand that even while discussing with the statutory auditors of the company, we have conducted the limited review. So what our view is that once the money will come and authority will definitely ask us that to block the money in a certain escrow account or we may opt to prepay the existing rupee lenders in the SPV itself. So this will bring down the cost to a substantial extent, number one. Second thing, it will again create a headroom for refinancing the entire asset as of now and third thing if anything basically if it is challenging, so definitely it will reflect in our balance sheet that this has been challenged by the authority, but once the authority stamp is already there on the numbers, before judiciary it was just claims actually, so we do not recognize that. But once the judiciary stamp is there, we do not recognize, then it is also wrong in terms of the accounting perspective what we understand.

Prem Khurana: And sir any update on Mysore- Bellary transfer to Sadbhav Infra. When is that likely to take place?

Nitin Patel: In fact, today only we have sent a complete detail comprehensive letter to the authority and most probably we will continue followup and now as per the terms of concession agreement once we receive the COD, so we can transfer the 100% of the asset in the name of SIPL. So now we are already through, so I think probably we are expecting that it will be completed as early as possible.

Prem Khurana: And if you could also help us with commissioning schedule for the remaining 8 check posts at Maharashtra Border Check Post?

Nitin Patel: Out of that two, we are expecting that it may start at any point of time because now the final approval has been given. So now the matter is under process of issues of GR by government. So any point of time government press will release the GR. So that is completed and for rest of the projects where we are almost through, so there we are expecting that by March we will be able to get at least 2 converted into the revenue and another remaining 4 we will be able to convert into the Q1 of FY19.

Prem Khurana: And just one last, I mean if you could help me with the order backlog that is available for hybrid annuity maintenance work which we are supposed to finish and project V if it is possible please?

Varun Mehta: In terms of the total number for the 7 HAM, it is 303 crores and for the major maintenance in Dhule-Palesner, it is 30 crores and for the major maintenance of Bijapur-Hungund and Hyderabad-Yadgiri, the number is 120 crores. So all put together, around 450 crores of order book is outstanding.

Prem Khurana: And this needs to be executed over the next 18 months right?

Varun Mehta: Yes.

Moderator: Thank you. We will move to our next question which is from the line of Aditya Kiran from L&T Mutual Fund. Please go ahead.

Aditya Kiran: We want to understand your policy on the MMR provisions which you create. So while you have these MMR requirements at the SPV level which you have to create to or route it to the P&L on yearly basis under IndAS. But do you actually create the cash reserves also in those SPVs that can be used for the MMR or as and when the MMR will fall due, then you have to arrange for the funds subsequently and take care of those MMRs? Thank you very much.

Varun Mehta: Yes. So really what we have done is under the IndAS accounting, the entire provisioning right now has been done. It is just a book entry. So there is no cash reserve which has been created. So because of that only if you see in the cash profit calculation, we are adding back that amount and in relation to the requirement of the MMR and the actual MMR expenses, what we

have done in the refinancing that the first MMR, which would be required in each and every project it would be funded by the lender's money. So for example, right now we are doing the MMR of Dhule-Palesner. So for that basically we are taking a drawdown from the lenders and this money will be repaid over the life of the loan which sort of ranges from around 12 years to 16 years, on some cases even 18 years also. So right now there is no cash reserve which has been created again this provision for MMR. It is just a book entry which is to be created under the IndAS.

Aditya Kiran: Okay. And in this year given that in this 9 months you have created a position of some 30 odd crores of MMR provision, so will that be the cash expense also that will be taken in these 9 months?

Varun Mehta: No. So this is in the 9 months we have done a cash provisioning of around 90 crores. Sorry, our provision for MMR was around 90 crores. But whether the requirement of actual cash MMR creation since this is the period in almost each and every SPV where we are either doing the first MMR or say the first MMR is due in the next couple of years. So right now we are sort of, we don't have any requirement as of now to create any MMR reserve settling for this financial year. So right now it is just purely a book entry of 90 crores which has been done.

Aditya Kiran: Thanks very much. Just little bit on last part of it, will it be possible for you to put some numbers of the MMRs that you have over next 3 years across various SPVs which has not been funded so far and may have to be funded by possibly incremental loans or you know enhancing of the existing SPV debt?

Varun Mehta: So, as we just mentioned that since we have done the refinancing in the last two years, so in the refinancing round we have taken care of this particular cash outflow which would have come in, fit into the refinancing. So probably as we mentioned in our opening remarks also, there is, I meant in Bijapur-Hungund and in Hyderabad-Yadgiri also, but in both these projects we have the tie up of the debt with the lenders also. So there is no requirement of any under support for the MMR which should come in. And probably in say FY20 or FY21, there might be a MMR requirement in Rohtak-Panipat but probably in case of MMR also there have been various sort of new technologies which have come in, that probably we sort of need not need to incur the MMR for the entire 100% of the stretch and plus since we are also in the next say financial year, we will be doing the refinancing of the Rohtak-Panipat once we receive the arbitration proceeds. So I don't think so we anticipate a huge amount of MMR support in Rohtak-Panipat and in other projects which is Bijapur-Hungund and Hyderabad-Yadgiri we already have the tie up of the funds.

Moderator: Thank you. We will move to our next question from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Just a question, you mentioned in the Ahmedabad Ring Road project that there seem to be having some issue, the car traffic there. I probably didn't understand what you said, if you can just please explain?

Varun Mehta: Yes. See basically that project if you see in the last 3 financial years the issue has been and probably we have discussed in certain concall also, that the car traffic was sort of utilizing the service road of that particular project, but as per the concession agreement, the local passenger cars can utilize the service roads without any payment of toll fees, but probably we have seen even non local people was sort of utilizing the service road for the purpose of this project. So I think because of that, in the last 3 years if you see, the revenue and the traffic numbers for this project was sort of subdued even though in the commercial traffic we have seen almost around 7% to 8% of traffic growth. But because of the car traffic which is being a city road contributes to a good amount. So probably this was an issue before, say before 10th of October. But now after 10th of October since the government of Gujarat has stopped the toll collection of the cars and we will be compensated now by the Government of Gujarat. So probably now we are indifferent whether the passenger car uses the service road or the main project road.

Ashish Shah: You can claim it from the government now for the car traffic?

Varun Mehta: Yes, so now we can claim it from the government.

Ashish Shah: Yes. Secondly, you said that the total standalone debt is 1,250, out of which how much would be the outstanding loan from SCL?

Varun Mehta: SCL loan is around 445 crores.

Ashish Shah: So it is steady, vis-à-vis last quarter?

Varun Mehta: Yes.

Moderator: Thank you. The next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.

Parvez Akhtar: Sir, only one question. I mean, considering the fact that we are now having double digit traffic growth across the overall portfolio and plus with the refinance of 7 odd projects, so obviously our cash profits are increasing quite a lot. So would there be a chance of an upward revision in terms of the number of HAM project that you would like to win going ahead?

Nitin Patel: See, Parvesh bhai, actually in HAM projects the bidding parameter at SIP level is very clear that unless and until we will be able to hit our required desired IRR, so we will not put the bid or commit any additional money, but so long as because of the, as we have mentioned, seeing that during last 1.5 years, the competition is very minimal as compared to the EPC even in the

BOT segment what we have seen at least 3-4 years back actually. So the industry has witnessed everything. So now basically what we are of the view that considering the number of bids are so large and this kind of situation we have never seen. I can give the example that during last even 8-10 years, 86 outstanding bids under the HAM or BOT or this kind of thing and even the amount you see more than 80,000 crores. So this situation was never before. So this is the way we contemplate that this is the proper time, see the number of bidders are less, let us take some incremental margin. If anybody wants to take little bit aggressive, we don't bother about the same, let someone to take, but at company level we are quite confident that we will be able to get the decent business at a reasonable incremental margin and without affecting basically the fact. So if something happen and we have to take say 2-3 more projects and commit some additional capital, but definitely it will be at a appropriate margin. So company will be able to make its money without any happening here or there actually.

Moderator: Thank you. The next question is from the line of Shubhadip Mitra from JM Financial. Please go ahead.

Shubhadip Mitra: My question was with regard to the HAM project, I think Varun mentioned as an answer to one of the questions that on the interest rate part of it, there is a natural hedge because of the traffic growth that one gets, but in case of HAM how does the rising interest rate scenario impact you?

Varun Mehta: See, in case of HAM projects also, so we will receive 3 payments from NHAI during the operation period. So one is the annuity, second is the interest on annuity and third is the O & M payment. So the interest on annuity component which is that is linked to bank rate, so probably if we are in a scenario where the interest rate is rising then definitely we should expect that the bank rate will also rise and because of that our revenue will also rise. So probably in case of HAM projects also there is some sort of linkage between the revenue and the expense is already there. So in case of the increasing interest rate scenario, I think we should be protected to some extent in their also.

Shubhadip Mitra: Just on a ball park vision, how much would this cover this interest on annuity? Would it cover your entire cost of debt or maybe only a part of it?

Varun Mehta: Yes. So I think if you see the way the NHAI draws out the model is, they will pay us the bank rate plus 3%. So right now the bank rate is 6.25% plus 3%, so the 9.25% they will pay to us on the entire debt and equity which is probably in our case 48% is debt and 12% is equity. But probably what we anticipate is that after the COD of this project, this project should be somewhere around AAA region in terms of credit rating also. So probably because of that the pricing of this debt in the SPV should be lower than say probably what NHAI is paying. So I think in a way we can definitely see that the amount of interest payment by NHAI should be higher than the debt amount or say the interest on debt what we are supposed to pay.

Shubhadip Mitra: Perfect. That answers my question. Secondly, given that there is a so much of interest and there is so much of opportunity available on the HAM side and that is where I think you are also focusing on, ball park basis what is the maximum quantum of HAM projects that you could potentially bid for?

Nitin Patel: See, two things I would like to mention here that in terms of the bidding capacity for HAM projects, so as of now, the qualification criteria, if we see that the individual projects Sadbhav Infrastructure per se is basically qualified for minimum 3,200 crores of the single project. So any single project costing around 3,200 crores at NHAI numbers, Sadbhav Infra is basically qualified for the same and in terms of the say we can say that the overall bid capacity, so I think considering the construction capability as well as the development capability both put together, so company do not have any upper side restriction as of now. So if I put in a different way say, if we had to add say at least 10,000-12,000-14,000 crores of the new business and everything is coming under the HAM also. But company doesn't have any kind of restrictions on the same. Except for the same company has to work out its appetite to put the equity and what are the basically the sources it will be able to generate and how it will be able to put the money to increase the value for all the stakeholders.

Shubhadip Mitra: That is exactly what I was trying to understand that given you would have some internal targets of consolidated debt equity or standalone debt equity numbers. So based on that would you have any ballpark number as to okay this is probably the annual inflow on HAM that we could look at whether it is 10,000, 12,000 or 14,000 crores. Any ballpark number on that side?

Nitin Patel: See, frankly speaking as a company we see in terms of both, not only as a HAM but overall execution. How execution we will be able to do, what is the appetite at our overall company and group level actually. So considering that we can say that from now on till December, we will be very okay that if we had around 8,000-10,000-11,000-12,000 crores of the new business both either in terms of the EPC or HAM put together. This is how we can contemplate actually.

Shubhadip Mitra: Okay, understood. Lastly, congratulation on such excellent traffic growth that you have been seeing. I believe even if I look at it on a QoQ basis we are looking at close to double digit kind of growth. So how do you see this panning out. I mean how does one, envisage this kind of high traffic growth number panning out even assuming that GDP growth numbers are where they are, do you see this continuing for a very long period of time or it will probably stabilize over a period of maybe 2 or 3 quarters?

Varun Mehta: Yes. So if you see in terms of traffic growth, so probably from the month of September, the entire traffic growth has been quite encouraging and probably, as I was just mentioning that in opening remarks also that the international agencies and the government and the RBI also expect that the pickup probably in the calendar year 2018 or financial year 2019, so I think in

the past also, so if you see in our case they are probably around 2009 and say 2012, between this 2 to 3 years and that particular point of time we have seen that the traffic growth sort of can sustain for two financial years also because the thing is that in the last probably say from FY13 to FY15 that probably 2 to 3 years we haven't seen much amount of traffic growth and then we saw a good amount of traffic growth in FY15-FY16 then FY17 the second half was impacted and in the first half FY18 it was impacted because of GST. So I think if you see in a way in the last probably 12 months we haven't seen a sort of a much amount of traffic growth but the last quarter the numbers are quite encouraging and sort of considering what we have seen between 2009 and 2012, so I think probably we are quite hopeful that this amount of traffic growth, probably a double digit kind of say probably 1% or 2% here or there, but probably we should expect that should continue say at least for the next, at least 6 to 8 quarters, assuming that the projections of the GDP sort of goes on in line with probably most of the people are projecting that is more than 7% GDP growth, then we can see good traffic growth.

Moderator: Thank you. The next question is from the line of Rita Tahilramani from SBICAP Securities. Please go ahead.

Rita Tahilramani: Sir, first question what is the noncash expense of almost 52 crores which is appearing in the press release, if you could help me with that?

Varun Mehta: Yes. So if you see our notes to accounts also, so this 52 crores of these noncash expenses in relation to the claim of Rohtak-Panipat because out of this 108 crores of claim of Rohtak-Panipat, there is some amount which is to be paid to the EPC contractors of the Sadbhav Engineering Limited. So what we have done is we have removed the non-cash income and also we have removed the noncash expense from the entire numbers of the cash profit.

Rita Tahilramani: Okay. And in terms of equity requirement you have already mentioned that we have infused almost 184 crores till date. How much is it expected to be infused in Q4 and consequently in FY19?

Varun Mehta: Yes. In Q4 since we have, in most of the projects we have infused our upfront equity requirement. So in Q4, probably we expect around only 20 crores-25 crores of equity sort of needs to be infused in Q4 and again we anticipate that the equity requirement should be somewhere around say 180 crores-200 crores because in certain projects what we have done is, we have given the bank guarantee against the equity requirement. So probably because of that there is a postponement of equity infusion which is required. So probably in FY19 also we anticipate that around 180 crores-200 crores of equity needs to be infused.

Rita Tahilramani: Okay. And sir if we look at the operating margins for the company for SIPL for operational projects itself, so we have seen a slight decline in terms of the operating margins. Can you help me with the reason for the same?

- Varun Mehta:** You are talking about the operating SPVs?
- Rita Tahilramani:** Yes, operational SPVs.
- Varun Mehta:** I think in terms of operational SPVs if you see the cash EBITDA margin there has been an increase, as we just mentioned in our opening remarks also that the cash EBITDA margin stood at around 84.47%. Say probably and if we include the Nagpur-Seoni annuity income also, so that comes to around 84.76% as compared to somewhere around 84.33% in the first half of FY18. So in fact there is an increase in the cash EBITDA margin.
- Moderator:** Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please go ahead.
- Sagar Parekh:** First question, what would be the total equity that we have already pumped in in the operational projects?
- Nitin Patel:** So the total equity invested in the 11 project which is 10 toll and one annuity project, it is around 2,300 crores of equity has been infused.
- Sagar Parekh:** Sure, so that plus another 180 crores is infused in the HAM projects and you said that 180 crores-200 crores will be infused in the next financial year?
- Nitin Patel:** Yes.
- Sagar Parekh:** Okay. And overall for the 7 HAM projects what will be the total amount that you would need over the next 2-2.5 years?
- Nitin Patel:** So from say FY19-FY20 and FY21, in that 3 financial year we are supposed to infuse around 500 crores of equity for the 8 HAM projects, that is eight one which we have won which is the Jodhpur Ring Road also, this 3 financial year we are supposed to infuse around 500 crores of equity.
- Sagar Parekh:** Okay, sure. And how do we plan to fund this? Will this be internally funded by let us say either monetizing the operational assets or possibly the cash profits coming from the operational projects?
- Varun Mehta:** Yes. I think the way the entire cash profit numbers sort of working also because on a quarterly basis we are seeing there is a good growth of the cash profit and from next financial year also there is a toll rate hike in Maharashtra border check post of 18% plus, new check post also being added in our Maharashtra border check post. So I think the entire requirement of 500 crores can be really met from the internal accrual itself because the way the cash profits are generating, so I think we will be able to sort of meet the equity requirement easily out of the

internal approvals. But probably we have various other options to sort of raise the money. We are also doing a securitization of Maharashtra border check post also where we are planning to sort of raise 500 crores. So probably there are various other avenues because right now the entire pass portfolio we told those and the annuity project is operational, so it opens up many opportunities to sort of raise funds.

Sagar Parekh: Sure, got it. And in terms of monetization of operational road assets, I believe Nitin bhai has mentioned that you guys will possibly come out with a press release once it is done but any kind of ballpark projects like we are looking to exit or we are looking to, we are in talks with some investors?

Nitin Patel: See, just let me tell that just what Varun bhai has mentioned regarding the avenues from which where we can generate the money for the basically future growth of the company. So apart from that the securitization of border check post what he has mentioned, if we see in a different manner that we say for FY19 out of the total cash profit what we are going to generate around 118 to 119 is the repayment to the existing operational project loan also. So that will definitely continue to generate the incremental basically revenue on a year-on-year basis, this is second thing. Third thing was we can say that the asset monetization, yes, the cars are clearly open and we are basically very active whereas I have mentioned that at any given point of time we may click basically transaction. This is the third thing. Fourth, there are the total 4 arbitration matters were going on that SIPL, SPV level. Out of four for which Rohtak-Panipat, we have already got the arbitration award and another three, basically in FY19, all the 3 awards will be there in FY19 actually. And the total amount of claim what we have lodged in all the 3 projects put together on the NHAI, that is to the tune of almost around Rs. 650 crores in 3 basically BOT projects of ours actually. So this is also we are seeing which may add the additional incremental requirement basically the funds for the company.

Sagar Parekh: And how much did we claim in Rohtak and so we received about 106 crores-107 crores. How much was the claim that we had put in?

Nitin Patel: See, the claim amount at original number was Rs. 86 crores plus interest. So against 86 crores of the claim, we the arbitrator has given the award for 75 crores plus the interest from the beginning. So that is why with interest it has went to Rs. 104 crores.

Sagar Parekh: So basically we can safely say that out of 650 crores of claims that we have put in for the remaining 3, we can possibly get about 500 plus easily?

Nitin Patel: That amount I would not like because since the award is not in a place, but see the claims what we have lodged that is, we are quite confident that which are the genuine loss to the company and which has genuinely effected the basically overall business of the company that is the only thing we have asked basically to the authority.

- Sagar Parekh:** Sure and this 650 is including the interest cost, right?
- Nitin Patel:** No, that is without the interest cost.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.
- Nitin Patel:** First of all, thank you very much to all the participants for basically sparing their valuable time for understanding the business for the quarter and 9 months ended as well as the further prospects for the growth of the company. I would like to just mention that obviously the 10-years, Sadbhav Infrastructure was incorporated in 2007, more than 10 years has passed now, one decade. We have seen all kind of ups and downs. The basic thing what we would like to mention here that the all the fundamental ground challenges, initial challenges has been now came through and company has been successfully now in a position to convert this entire investment into the absolute cash generation mode and going forward because of the model itself, we are quite confident that every quarter on quarter the cash generation in the company level will continue to go up and up. Definitely all required measures in terms of the keeping their cost, mainly their finance cost within the control are there on the cards and every time we are evaluating the required basically opportunity and also taking the relative accent to convert into the same and going forward whatever business companies have taken and company is committing the capital that is relatively very safe business model of hybrid annuity what we can understand that. So we have discussed that once it is completed, all is going to become an AAA for their company and it is a sovereign guarantee of the government of India. So what we can say that the strong footprint of the company has already been now created and going forward we are quite committed to take this forward on a positive trend. So that is generally what I would like to mention. Thank you so much again for all taking their time. Thank you.
- Moderator:** Thank you. On behalf of Equirus Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.