



“Sadbhav Infrastructure Project Limited Q3 FY2017  
Results Conference Call”

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

**MANAGEMENT:** MR. NITIN PATEL - DIRECTOR - SADBHAV INFRASTRUCTURE  
PROJECT LIMITED  
MR. VARUN MEHTA - CFO - SADBHAV INFRASTRUCTURE PROJECT  
LIMITED

**Moderator:** Ladies and gentlemen, good day and welcome to the Sadbhav Infrastructure Project Limited Q3 FY2017 Results Conference Call 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 the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Devam Modi from Equirus Securities. Thank you and over to you Mr. Modi!

**Devam Modi:** Good evening everyone and thanks for taking out the time for this call and we would also like to thank the management for giving us the opportunity to host this call. With this without further ado I would like to hand over the floor to Nitin Bhai and Varun for discussing the results.

**Nitin Patel:** Good evening everybody for taking your valuable time for understanding the quarter business of Sadbhav Infrastructure Project Limited. Now on behalf of Sadbhav Infrastructure Project Limited I would like to welcome all the participants to the earnings call for the quarter ended 31 December 2016. Regarding updates and any financial numbers and everything I would hand over the call to Mr. Varun Mehta at a later date after completing my initial remarks.

First just to give an update pertaining to the demonetization so what has happened in the quarter and what is the current status actually, so I would like to take the opportunity to give the update what we are seeing on the ground. So we had a detailed discussion on what would be the impact of demonetization on our business in the last conference call. We had highlighted three major impacts of the same. Now that we have a fair bit idea that what is the clear impact of the demonetization, so if we see the first point, I would like to highlight that was in relation to the operational issues due to lesser circulation of lower denomination and high circulation of rupees 2000 notes. So we have successfully managed the same with installations of digital modes of payment in all our lanes where we are collecting the basically service fee or toll fee. So this was also we have discussed during the last conference call, so what we have seen that the point of machine transaction currently constitute almost around 15% of the toll collection vis-à-vis 10% in the month of December 2016. So this is the positive move what we understand that this pace if continues that the coming couple of years we may cross the 50% also, so now we are also encouraging for the issuance of basically more and more ETC tag at the toll plaza locations, so that is regarding point number one.

Then the second point what we have already intimated regarding to the stock exchanges on the 7 January 2017. This is regarding the toll collection for the quarter, so the toll collection for the month of December 2016 was down by 3.7% as compared to December 2015 if we translate actually, so the traffic was down by approximately 7% to 8% because the revenue constitutes the toll rate hike also as

compared to 15 versus 16, but in the month of January, now January is already over, so I would like to mention here that now we are at least 2% to 3% higher than January 2016, so there is a complete change that the traffic has moved significantly upside, so what we can say that even though the January, the traffic seems to be flat as compared to January 2016 versus 2017, but more or less the impact of demonetization is getting reduced, so what we understand that the February and March, this may come up again the growth phase and we will be able to continue to get the incremental revenue on month-on-month basis, so everybody is envisaging that from the Q1 of FY2018 everything should be completely in a normal way and we will have a complete normal growth vis-à-vis Q1 of basically FY2017 actually.

The third impact was the benefit from the reduction in the rate of interest by the banks. What we have seen in the overall complete SIPL portfolio we have already seen that the banks have reduced the MCLR rates by approximately 70 basis points. If we compare these basically the financial benefit as against the revenue loss pertaining to demonetization, so what we are of the view that it will get compensated or offsetted basically in the current quarter, so the benefit of finance cost will give the much advantage as compared to the reduction in the traffic what we have seen in the previous quarter, so current quarter we are quite hopeful and quite bullish that it will come out with a very robust number in terms of the overall profitability because the substantial reduction in the overall portfolio and what we have seen all the banks because majority of our portfolio we have converted into the MCLR rates and also in a process because three of the another basically the projects, the Maharashtra border check post, Shreenathji-Udaipur and Bhilwara-Rajsamand. We are of the view that within one quarter all the three we will be able to complete the refinancing of the assets. So this will be further benefit, so this was largely from my perspective regarding this demonetization that I would like to put before the floor. Now I will hand over to Mr. Varun Mehta, who is the CFO of SIPL to discuss in relation to the business of SIPL and other prospects pertaining to numbers for the quarter. Thank you so much for listening to me.

**Varun Mehta:**

Thank you very much Nitin Bhai for giving the useful insights on the impact of demonetization. I once again welcome to the earnings call for the quarter ended 31 December 31 2016 of Sadbhav Infrastructure Project Limited. I am sure you must have seen the media release for the financial results, which was shared on 7 February 2017. I will start with the bidding updates and then we can go to the business updates and then we can discuss the financial numbers.

Post our last concall and up to 31 January 2017 we have submitted the bids for six HAM projects of lane 453 km of size Rs.5814 Crores. Of these six projects three bids are yet to be open up, we were L2 in two bids and we were L3 in one of the bids. As discussed in our last concall, we had anticipated there will be a reduction in the number of players who are bidding for the HAM projects and we have seen this particularly in the last six bids, which we have submitted. So the number of bidders in the

six HAM projects have been reduced to around four to five bidders as compared to around 8 to 9 bidders, which was there in the period of Q2 FY2017 and probably if you look at the bidding pipeline for the HAM projects, we definitely see there is a huge pipeline, which is available till the end of the March and in terms of the players who are bidding only four to five players who are submitting the bids. So we definitely expect there will be large size of projects will be available for each and every player and the margin would also be better as compared to sort of what we normally bid for. So, in terms of bidding pipeline, there are 23 HAM projects of length 1473 km of size, Rs.26275 Crores with the financial bids are to be submitted by 31 March 2017, so I think definitely if you see this 23 bids as against four to five bidders, so definitely there is a huge say around four to five projects are available for each and every players for your course of bidding.

In terms of the BOT toll projects from the last concall till 31 January 2017, we have submitted a bid for one BOT project and that was particularly the Kishangarh package I. We were L2 in that particular project and the number of bidders were only three. The bidding pipeline for BOT toll is not a huge pipeline as compared to the HAM, so there are only two bids of lane 133 km of size Rs.2821 Crores with the financial bids are to be submitted before 31 March 2017. So definitely we are sort of focusing on both the segment that is HAM and BOT toll, but we expect there will be a huge sort of participation from Sadbhav in particularly the HAM segment, which is there. The update on the files HAM project, which we have won in FY2017 is as follows. In case of Rampur-Kathgodam Package-I and Package-II, we expect to receive the appointed date for package I within couple of weeks from now. We have already intimated to NHAI to provide the appointed date first and we expect that should be done within the couple of weeks. In case of package II, the tree cutting work is in progress at the site and hence we expect the appointed date for package II to be before March 2017.

For the Rampur Kathgodam package 1 & 2 the ground activity in relation to the construction of the projects have been started by Sadbhav Engineering Limited who is the EPC contractor because in terms of the way the EPC contractor operate also before the appointed date only we start the work, so that we can complete the projects on time and within the cost also and started by the EPC contractor for both these packages. So once we received the appointed date the work can start immediately for both the packages. As per the concession agreement, we are supposed to maintain the road from the date of the signing of the concession agreement, so accordingly SIPL has also started the work in relation to the maintenance of the road. Approximately Rs.35 Crores has been recognized as revenue during Q3. In case of Q3 of FY2017 Bhavnagar Taleja and Una-Kodinar Projects, the updates are as follows. The financial closures of the projects within the stipulated timelines of the concession agreement. The appointed date for both the packages is expected by end of March 2017, but again to emphasize here we have started the ground activity in relation to the government with the EPC contractors who have already mobilized the work has been started on the site. So immediately once we receive the appointed date we can quickly start the work. Similar to the Rampur-Kathgodam

packages, SIPL has recognized revenue of approximately Rs.28 Crores during the construction period, which is BRT tiger reserve boundary to the Bengaluru section, so we have signed the construction agreement on December 8, 2016 and so we are in the final stage of closing the sanction letters, probably we expect that we will close the sanction letters within probably within the next none week or 10 days or so. We expect to achieve the financial closure for this project by end of March and we expect that the appointed date for this project should be in hand by end of April 2017, so this is the update in relation to the new projects won by Sadbhav.

In relation to the Maharashtra border check post, we have received the service fee for three of the check post namely Akkalkuwa, Borgaon and Shinoli from 27 January 2017 and we have started collecting the service fee from this three check post. The current run rate in the three check post is somewhere around Rs.4.25 lakhs per day and this is somewhat in line in what we had estimated the time of the financial closure also, so definitely these three checkposts are through in terms of the closures. The second update since the December WPI index is now available only in website of the Office of Economic Advisor. The toll rate hike for NHAI projects is now finalized. The toll rate hike for FY2018 shall be somewhere around 3% per annum. Work under progress at Mysore-Bellary Project right now and we shall apply for the COD for 163 km by end of February 2017 and for the balance 30 km we shall apply before end of March 2017, but that is also again around three to four months before the schedule completion date. In relation to the claims, pursuant to the demonetization from the circulars passed by NHAI and the various state governments for the compensation of the toll loss we have filed various claims in the various SPVs of around Rs.59.78 Crores on NHAI and the other state government. Of that we have already received the amount of Rs.14.5 Crores and we expect to receive the balance money before the end of this month because we have been pursuing with the regional officer also and they are releasing the money in bits and pieces.

In relation to the other claims filed by all the aspects together, so all the aspects are put together a claim of Rs.755 Crores on NHAI and roughly around 739 Crores on the Government of Maharashtra, so these claims are basically pertaining to the six SPVs of the entire group and these claims are at various stages of the dispute with respective agencies, so we will definitely update you once we hear from the concrete judgment from the final authority in relation to the dispute. Now coming to the financial numbers for the nine months ended, breakup between the operations, SPVs, under construction SPVs and SIPL standalone for the P&L item has already been provided in the media release. From these consolidated total income including the other income for nine months ended 31 December 2016 stood at Rs.998.65 Crores. During the same period total income for all the operations SPV stood at Rs.729.39 Crores of which Rs.29.91 Crores was non-cash income and that is particularly towards the M2M derivative gain of the SPVs where we have taken the ECP that is Rohtak-Panipat, Hyderabad-Yadgiri and Bijapur-Hungund. During the same period, the cash EBITDA stood at Rs.567.36 Crores, which translates to 85% cash EBITDA margin for the

operational SPVs and this is the same level, which we normally maintain if you see in the past and in the future also we expect the cash EBITDA margin to be at this level. The cash profit from the operational SPV stood at around Rs.95.02 Crores while the cash profit from SIPL standalone stood at Rs.52.20 Crores. Based on the current run rate of Delhi toll collection of Rs.2.9 Crores per day and considering a normal revenue growth, we expect that the revenue from the operation SPV for FY shall be somewhere around Rs.1125 Crores this is considering the normal toll rate, which we are collecting from the operational SPVs. This is excluding the Mysore-Bellary project that is coming next year and from SIPL standalone we expect a revenue of roughly around Rs.300 Crores and that is particularly relating to the routine maintenance of the HAM projects and the measure maintenance of the operational SPVs. The cash EBITDA margin from the operational SPV we expect it shall remain at somewhere around 85% only. SIPL has a current outstanding order book of Rs.290 Crores towards the routine maintenance of the five HAM projects, which is expected to be executed over a period of 24 to 30 months from now. MMR of HYDPL and DPTL is expected in FY2018, which is amounting to roughly around Rs.125 Crores. Consolidated debt as on 31 December 2016 stood at Rs.8225 Crores while standalone debt as on 31 December 2016 stood at Rs.1108 Crores, which includes the debt from SEL of around Rs.380 Crores. The average cost of debt at the SPV remains at the same level as the last quarter because whatever MCR reduction we have seen will come from 1 January 2017, so that is somewhere around 10.3%. Average cost of debt in the SIPL standalone remains at the same level somewhere around 11%. With this we conclude our opening remarks, now we can start the Q&A session.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Jiten Rushi from IDFC Securities. Please go ahead.

**Ashish Rushi:** This is Ashish. The first question I had is about the claims in view of the suspension of toll, so when we had put up the release on 7 January 2017, the release said that 10 operational SPVs have filed invoice of Rs.62 Crores on the basis of October collection whereas the number that we have given in the result this time is that excluding Maharashtra border check post the revenue recognizes Rs.60 Crores, so I am probably not able to reconsider because I thought Rs.60 Crores was a number, which included all the 10 operational SPVs including Maharashtra border check that was my impression, so I just wanted to check that.

**Varun Mehta:** In case of Maharashtra border check post sort of what we hear from the government that there might not be a compensation by way of cash and there might be a compensation by way of extension in the concession period. Apart from the number of Rs.59 Crores, which is recorded in the books of account as revenue does not include the Maharashtra border check post claim of roughly around Rs.20 odd Crores?

**Ashish Rushi:** But Varun actually if I just do a very broad math, if I just take the October per day collection and if I just multiply by 23 it does not come to about Rs.60 Crores, it comes substantially less, we can do the calculation offline also, but I just thought I will post this question to you, so that it comes to lesser, it comes to probably about Rs.52 Crores or somewhere there.

**Varun Mehta:** If you see the numbers basically the claim as per the October revenue numbers for all the SPVs excluding Maharashtra border check post would be somewhere around Rs.50 odd Crores. The claim on the basis of the NHAI circular, which says that is the interest cost, millennium cost, plus the MMR cost and the premium payment to NHAI, so on the basis of that formula the claim amount is to around Rs.59 odd Crores, so that is the difference basically which is there because officially the filing of the claim was on the basis of October revenue, but then there was a circular from NHAI we will have to submit the invoice on the basis of the cost basically at the time of the submission we have included all the costs and not only the interest and the O&M cost. So on that basis, the claim comes to around Rs.59 Crores excluding the Maharashtra border check post.

**Ashish Rushi:** Basically Varun we are saying that we will be rather benefit by having a cost based compensation then a revenue-based compensation?

**Varun Mehta:** I think that is particularly because we have included the measure maintenance cost also plus we have included the premium also, because of that the cost is higher than the revenue.

**Ashish Rushi:** Right, but as of now we can say there is still some clarity awaited whether this number will be exactly accepted or not because in their framework they did mention only O&M and interest, they kind of did not mention the other aspects of premium and MMR, it was not explicitly mentioned it might get included though?

**Varun Mehta:** Obviously we are discussing with NHAI on that front, but definitely if you see media release also we have taken this Rs.9 Crores as a non-cash item and that has been excluded from the cash profit, which is there.

**Ashish Rushi:** Got it. Just secondly you said that on the O&M side, we have recognised about Rs.35 Crores from two HAM projects and another Rs.28 Crores from the other two on the O&M side in Q3, so I was actually wondering whether in just one quarter can we have such high O&M maintenance income for those HAM projects?

**Varun Mehta:** If you see in all these four projects, the way the requirement of the concession agreement is we have to maintain the road right from the date of the concession agreement, so in case of the Rampur-Kathodam we had signed the concession agreement in Q1 itself and in case of Bhavnagar also we

had signed the concession agreement in Q2. All this work we had started from the signing of the concession agreement and since the road is supposed to be maintained from the day one construction of the road, but as and when the construction progresses then obviously the maintenance cost will reduce because that was the part of handle and that would be part of the construction of the road. So I think in this case particularly for all this HAM projects the way could be that the maintenance of the road would be higher in the initial stage of the construction or I would say that is before the appointed date, but then the maintenance amount would go on deducing because then it would be handled by the EPC contract.

**Ashish Rushi:** Lastly on the same issue, so basically this Rs.35 Crores or Rs.28 Crores may also have got bid, so this is as per the bid, so we would have also got compensated for this amount right?

**Varun Mehta:** Yes, that is part of the total project cost, which we have submitted to NHAI, so this includes the EPC cost of Sadbhav engineering and also the EPC cost of Sadbhav Infra.

**Ashish Rushi:** Right, so this is part of the total bid project cost that we have given not like we are spending extra from our pocket to maintain this?

**Varun Mehta:** No, this was already envisaged at the time of bidding.

**Ashish Rushi:** Fair enough. I will come back in the queue. Thank you for now.

**Moderator:** Thank you. We take the next question from the line of Nilesh Bhaiya from Yes Securities. Please go ahead.

**Nilesh Bhaiya:** Thanks for taking my question. Can you quantify what is the major maintenance expense that we have incurred this year till date and what is going to be the MMR for the next two years?

**Varun Mehta:** First, basically we had recognized the measure maintenance of two of the SPVs that is Aurangabad-Jalna and Nagpur-Seoni and the amount was somewhere around Rs.70 odd Crores put together for both the SPVs and next year basically FY2018 we expect the measure maintenance will come for Dhule-Palesner and Hyderabad-Yadgiri and the quantum should be somewhere around Rs.125 odd Crores.

**Nilesh Bhaiya:** And if you can also say FY2019?

- Varun Mehta:** In FY2019 definitely there is some measure maintenance in Bijapur-Hungund and Rohtak-Panipat. In case of Rohtak-Panipat the amount should be somewhere around Rs.290 odd Crores, in case of Bijapur-Hungund it should be somewhere around Rs.70-75 Crores.
- Nilesh Bhaiya:** Mysore-Bellary project we still need to pay the equity to the SEL from SIPL when we will be doing the transaction for the transfer of state from SEL to SIPL?
- Varun Mehta:** Yes the equity invested is somewhere around Rs.79 Crores, at the time of the state transfer there will be a payment from SIPL to SEL for this amount.
- Nilesh Bhaiya:** So the entire equity commitment will be around Rs.460 Crores for five HAM projects and Rs.79 Crores for Mysore-Bellary is that correct?
- Varun Mehta:** Yes.
- Nilesh Bhaiya:** And most of them will be spent on FY2018 and FY2019?
- Varun Mehta:** There will be some upfront equity, which should be required in this quarter.
- Nilesh Bhaiya:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.
- Utsav Mehta:** Good afternoon. Just wanted an update on the monetization plans for the assets. If you could just provide some update as to what assets, what are the kinds of valuations we are looking at and what are the timelines that could pan out for any asset sales if there is any plan?
- Varun Mehta:** Basically right now we are in the process of discussion with the potential investors, but till now we have not signed any document or any agreement. Basically we finalized a particular SPV or basically we signed any document or any term sheet in relation to that we will definitely intimate to the stock exchange and to the market also, but as of now there is no update on it.
- Utsav Mehta:** Just to add on any new projects that we win or we add on to the portfolio, would that be dependent on let say FY2018 or may be even FY2019, would that be dependent on how much we can monetize or is there limit to the number of assets you want to take on because beyond a point it will get difficult to operation, to continue running so many assets?
- Varun Mehta:** If you see particularly in case of the HAM projects, the equity requirement is not so high as it was used to be in the case of the BOT toll projects, I think definitely in these five projects also our equity

requirement is Rs.460 odd Crores and which can definitely be funded from the internal accruals of the entire group. So I do not think so that we are doing stake sale that is purely because of the way the entire strategy of the company is because Sadbhav is not a fund, basically we will like to develop the asset, we will like to construct the road, we will sort of do the entire will be associated with the maturity of the assets, but then post basically that we will like to do a churning of the assets because the core expertise of the group is to do the construction of the new roads and which is where basically Sadbhav is into this business in the last more than 20 years, so I think from that perspective the company's strategy is to do a churning of the assets and in case of new assets the way our cash flows are structured now I think definitely we can keep on adding say four to five assets with total equity requirement of Rs.400 Crores to Rs.500 Crores on a yearly basis, so that is the way we can definitely keep on going up.

**Utsav Mehta:** Also being hearing from other competitors that HAM project competitive intensity is actually rising and not declining or maybe likely to rise is what is the sense that I got out of it I mean is there a disconnect in my understanding or there is something, which is leading to or is likely to lead to an increase in competitive intensity?

**Varun Mehta:** I think if you see last concall also we had mentioned that particular, the number of bidders is bound to reduce and that is happened in the last six bid itself because in the month of October and September when particular there were many HAM bids who are submitting the bids, but in the last six bids.

**Moderator:** Sorry to interrupt. Members of the management team, Sir your voice is breaking up.

**Varun Mehta:** Is it audible now?

**Moderator:** No not really. There seems to be some background disturbance from your line.

**Varun Mehta:** Is it fine now?

**Moderator:** Thank you.

**Varun Mehta:** In case of the HAM projects in the last six bids definitely there were like only four to five bidders who are only submitting the bids, so I think definitely we expect that the competition sort of would not increase at least till the month of March and the reason for that is the number of bids, which have already been bidden by NHAI, so that is somewhere around 35 to 36 bids under the HAM structure, so of that I think only around 10 to 12 projects have achieved the financial closure. So I think definitely the players who have not achieved the financial closure plus there were many local players who are bidding at that point of time they would not be able to bid at least in this round of bidding,

This is what basically our rating of the market is, but I think definitely one sort of fact is there in the last six bids we have not seen that competition, so I think definitely the competition will remain to only four to five players till the end of March.

**Utsav Mehta:** I just missed out on the number of claims that you filed with NHAI and Maharashtra state government?

**Varun Mehta:** With NHAI the amount is Rs.755 Crores and with government of Maharashtra it is Rs.739 Crores.

**Utsav Mehta:** Got it. Thank you so much Varun.

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

**Parvez Akhtar:** Good afternoon. A couple of questions from my side. You said something about the expected toll hike figure in FY2018 I am sorry I missed it, would it be possible to repeat that?

**Varun Mehta:** On the basis of December 2016 WPI index the toll rate hike in FY2018 will be somewhere around 4.3%.

**Parvez Akhtar:** And just I wanted to check for the Bhilwara-Rajsamand and Rohtak-Hissar projects when do we expect to get the first toll hike?

**Varun Mehta:** The first toll hike for both these projects would be from 1 April 2017 itself because the toll started for both these projects somewhere in Q1 that is in June for Bhilwara and particular in July for Rohtak-Hissar, so we will get the first toll rate hike from 1 April 2017.

**Parvez Akhtar:** In Shreenathji-Udaipur, we have got the toll hike in April this year right?

**Varun Mehta:** Yes, we got the hike.

**Parvez Akhtar:** Also one question that again as when asked and you actually replied to it later that going ahead we will be looking at winning our four to five projects per year, do we have a preference that we will focus purely on the HAM order will that include the BOT toll project also because if we are going for the BOT toll project the equity requirement maybe slightly highest, so just wanted to get your sense?

**Varun Mehta:** Yes, so we will continue to focus on both the segments that is HAM and the BOT toll so that will all depend on exactly what are the parameters and what are the bidding dynamics for a particular bid, but definitely if you see in the past also the way we have bid for the projects we are generally looking for in that particular point of time and the competition is less than we can get sort of better it as

compared to the period when the competition is high, I think definitely in the current scenario the way the entire portfolio structure say almost all the projects are generating the cash and also we have sort of refinance the SPVs also, so I think definitely the ability to take the new projects is far, far higher as compared to what we have done in the past and I think definitely we will continue to bid for both the segments from SIPL.

**Parvez Akhtar:** Over a longer period of time, what is the debt equity at the consolidated level with which we will be comfortable with?

**Varun Mehta:** We normally look at the factor of DSCR that is debt service coverage ratio because that is more relevant for the BOT type of assets where probably you will see some amount of book losses are also there and also particularly we sort of contribute some amount of equity by way of sub-debt, so normally we are comfortable with the debt service coverage ratio of 1.28, so that is the minimum sort of what we look for and on that basis only we normally bid the new projects.

**Parvez Akhtar:** Thanks, that is it from my side.

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

**Ashish Rushi:** Ashish here again. You said that next year for the standalone we should expect about Rs.300 Crores of revenue of which you said Rs.125 Crores would be the measure maintenance for Dhule-Palesner and Hyderabad-Yadgiri what would be the balance?

**Varun Mehta:** If you see there will be certain amount of revenue coming from the EPC of Maharashtra border check post that project was partially under construction project in FY2018 that would be revenue from the routine maintenance of the five HAM projects for BOT for 2017-18.

**Moderator:** Sorry to interrupt Sir. We are not able to hear you. You will need to speak a bit louder.

**Varun Mehta:** So that would be revenue from the EPC of Maharashtra border check post because that project would be partially under construction in FY2018 and that would be revenue from the routine maintenance of the five HAM projects, which are there. We have already seen the revenue recognition in Q3 of FY2017, so something similar will be in FY2018 also. The third would be there will be revenue from the routine maintenance of the operational SPVs that is we do the routine maintenance for all the operational SPVs from Sadbhav Infra, so the revenue would be also coming from that particular SPV. I think putting altogether the amount would be somewhere around Rs.300 Crores in FY2018.

**Ashish Rushi:** Also on the claims what you said, so at what stage are these claims, are they in arbitration or they have been approached for arbitration, at what stage are these?

**Varun Mehta:** Regarding arbitration actually four projects what we are there with NHAI, so three the arbitration already is on and we are expecting that out of the three by September we will have the arbitration award for two of the projects, by end of the FY2018 we will have this arbitration awards with NHAI actually because these are under the new Arbitration Act this is one part and second for Maharashtra government actually more or less entire amount has been certified by independent consultant as well as the concerned authority say for Maharashtra border check post MSRDC has already given the note for that particular amount and even the PWD of government of Maharashtra for Aurangabad-Jalna projects they have also given the approval and matter is lying with the government level actually. So we expect that this is just they have to add into the concession period based on the base case business model, so the government of Maharashtra will not basically give the amount in the cash, but the NHAI will pay everything based on the award into that these may can be converted into the case after upon submission of the bank guarantees for 75% of the amount, if they want to dispute further actually, so that is the process.

**Ashish Rushi:** Basically you are saying that in Maharashtra the compensation will be more in terms of an extension?

**Varun Mehta:** It will be more in terms of the extension and because this is basically the base case number, so this will be further increased basically once we have to convert, so they have to match the project IRR, so in Aurangabad-Jalna the project IRR is 16% and in Maharashtra border check post the project IRR as per the base case plan is 17%, so all these amount is to be returned by the government, they have to compensate with these IRR and they have to increase the concession period accordingly, so this is for the Maharashtra project.

**Ashish Rushi:** Lastly we had a plan to pay down the debt to Sadbhav Engineering by refinancing the Maharashtra border check post project, so you think this will happen within the Q4 or this will probably go to next financial year?

**Varun Mehta:** Sanction and everything will be completed by end of Q4 and obviously the process because we have to prepay the existing lenders on a reset date, so reset date is falling somewhere in the month of April actually, so according to that we have to prepay them, otherwise we will end up paying this premium to the existing lender, so according to it we will be ready with all the sanctions and documentation by end of March.

**Ashish Rushi:** In April probably the refinancing transaction should be closed?

**Varun Mehta:** Exactly, so have April is the date, which is 45 days, within 45 days from the reset date any point of time we can pay without any premium to them.

**Ashish Rushi:** The amount that we are expecting to repay Sadbhav Engineering is about Rs.200 Crores?

**Varun Mehta:** As of now obviously if we got the in-principle sanction for Rs.500 Crores in border check post from the new lenders, obviously but currently upfront it will be Rs.200 Crores and remaining will be at a later stage when the revenue will continue to increase, so this is the one time kind of sort of approval we are taking from the lenders as well as the government both actually.

**Ashish Rushi:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Devam Modi from Equirus Securities. Please go ahead.

**Devam Modi:** Firstly just wanted to understand that apart from us and few other companies, very few companies have actually managed that see for hybrid annuity projects, so what is the key difference you are seeing this time in terms of lender behavior compared to earlier and also if some players are not able to close or attain FC what kind of time does NHAI take before canceling this project and putting up them for rebidding?

**Varun Mehta:** First of all obviously the execution strength is coming into the place because that is a key thing what every lender is looking for. Second thing basically the terms and the pricing fee as we have mentioned below certain threshold we have not put the bid, so if everything is being after considering all cost say for example over and above IDC it is a normal thing, but the cost pertaining to managing the order of facilities in lieu of the NHAI grant and also mobilization advanced cost everything is being loaded into the SPV and then after average DSCR we have taken it is at a very comfortable level, so that is why the bidding criteria what the lenders are looking for. So based on that we hope that the way what we have submitted the bid it went to the lenders community and your second point because what has happened today because in industry normally we are also discussing with large number of lenders and everything, so hardly around 12 to 13 projects have achieved the closure plus another four or five are under way to achieve the same. So everybody I think the terms what the lenders are asking a little bit high and also some sort of large guarantees everything from the promoters of the companies are basically additionally it is being paid, so what we understand that if this is coming into the play, so naturally this kind of developer will not be able to come forward for the next round of bidding, so which is continuously going on and now with the government giving the clear budget reallocation in these budget we everybody know that what is the allocation to the highway sector. So obviously this is going to become a very big boost and now the NHAI himself they are going ahead in such a way

that they want to basically at least incrementally go at least 1.5x of what they have completed the bidding for FY2017, so this momentum will continue for the coming years also what we understanding.

**Devam Modi:** How much time would NHAI is taking before canceling a project in case if somebody fails to attain FC?

**Varun Mehta:** Initially they are giving one notice and I think if the developer is able to manage, there is a provision in the concession agreement that the extension can be sort by paying the penalty, so it is everybody all developers called that whether by paying the penalty he will be able to achieve the closure and if he is not there then definitely he has to surrender before the authority, so they have to by just evoking the bank guarantee or basically encashing or by paying the same amount of penalty to NHAI they can come out, so as of now I think two or three projects has been canceled, but definitely we have to see for some more time basically two to three months then we will be able to figure out that what exactly happening to the projects where the closure has not been achieved.

**Devam Modi:** If you mentioned earlier that we have current average interest rates of 10.3% and 11% for the SPVs and standalone respectively, so how much further decrease do we see from this level based on our current sections and terms of refinancing once the actual transmission happen?

**Varun Mehta:** If you see the transmission of the MCLR for the operational SPV so that would be somewhere around 70-basis point I think from 10.3% definitely we can easily go to 9.6% just because of the transmission and the second round of reduction would be because of the refinancing of the three SPVs that is Maharashtra border check post, Shreenathji, Udaipur and Bhilwara, which we just discussed in our opening call also. Because of that also we are seeing that the cost should come down for the entire portfolio to somewhere around 9% to 9.1% because bearing this three SPVs, the SPV where we have sort of done the refinancing definitely and cost right now is somewhere around 9% to 9.5% so I think once we do the refinancing of these three SPVs also then the cost for the entire operational SPVs portfolio should be somewhere around 9% to 9.1%.

**Devam Modi:** How much should be the bond portion in this entire debt right now?

**Varun Mehta:** Right now we have taken the bond from infrastructure debt fund in three of the SPVs, so the total quantum basically in three of the SPVs will be somewhere around Rs.800 Crores, but I think definitely the plan of the company is by FY2019, so we want to convert probably majority of the debt also into a bond structure, so once basically the rating of the SPV improve because once we have done the first round of refinancing the rating of the SPV has improved from BBB to A category, so definitely we expected the traffic should grow from here onwards and plus the interest rate also sort of

go down and the first MMR will also be completed for this SPV, so I think definitely by FY2019 and we are definitely looking to convert majority of the debt into bond because in the bond market also we have seen there is a huge difference between the bond market and the bank loan market in terms of pricing, so I think by FY2019 we would be able to capture that.

**Devam Modi:** On the standalone side, the 11% rate should come down to what level?

**Varun Mehta:** So in terms of the standalone majority of the borrowing what we have done is in terms of the fixed debt entities, which are there and so the entities are bound to get mature or there is a put in a call option also available in some of the entities, so I think that should be in from the years of FY2019 and in FY2020 for some of the entities. So I think till that time the interest rate will remain at 11%, but I think post that then obviously we can do a refinance on that particular entity also and then it will all depend on the market rate at that point of time.

**Devam Modi:** Thanks, that is it from my side.

**Moderator:** Thank you. We take the next question from the line of Prem Khurana from Anand Rathi. Please go ahead.

**Prem Khurana:** Good evening Sir. A couple of questions from mine, you spoke about refinancing for Maharashtra border check post Shreenathji, Udaipur and Bhilwara Rajsamand, but how about Ahmedabad ring road, there again we are planning to issue some bonds, have you made any progress there or they still stuck with order?

**Varun Mehta:** Yes, we have filed an application with order, but we have not seen any major movement basically happening on that front, so I think Ahmedabad ring road is on the cards, but the way the other three SPVs are structured in terms of size because Maharashtra border check post is almost more than Rs.1000 Crores of debt, Shreenathji, Udaipur is almost around Rs.850 Crores of debt and Bhilwara Rajsamand is around Rs.250 Crores of debt, but is again linked to the same traffic dynamics as SUTPL, so I think definitely we would like to complete the refinancing of the three assets and I think then we can sort of look for the refinancing of Ahmedabad Ring Road.

**Prem Khurana:** And the second question was on exposure of Sadbhav Engineering last quarter I think it had come down to almost Rs.280 odd Crores and it increased to almost Rs.380 Crores this quarter which in effect means we seemed to have taken Rs.100 odd Crores from Sadbhav Engineering in this quarter, so what we have used this money because if I go by a media it will be seem to have generally positive cash back or what would we use this money for Rs.100 odd Crores?

- Varun Mehta:** In the last quarter that is as on 30 September 2016 the amount outstanding from Sadbhav Engineering was 312 Crores and right now is around Rs.388 Crores, I think majority of the money has gone because of the lack of compensation from the NHAI and from the state government towards that the stoppage of the toll, so once we sort of start receiving the payment from the NHAI and from the state government this amount will definitely be sort of closer to Rs.312 Crores, which was there as on September.
- Prem Khurana:** The numbers have been reported in media release and topline number with operational assets, does it include the claim amount that we have received or it excludes that amount on or the claim that we filed?
- Varun Mehta:** The revenue includes Rs.59 Crores of the claim, which we have filed on the NHAI with the state government authorities; it does not include Rs.20 Crores of claim, which is there in case of Maharashtra border check post.
- Prem Khurana:** When I am calculating cash price just for the claim amount that you have filed and you are yet to receive it right?
- Varun Mehta:** Yes, obviously if you say that amount we are starting to receiving that amount, so I think this is something similar to a normal data, which we have in the books.
- Prem Khurana:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for the closing comments.
- Nitin Patel:** First of all I am very much thankful to all the basically participants, analyst from both sides for taking their valuable time for understating the results and numbers for the Q3 FY2017 of Sadbhav Infrastructure Project Limited. I am thankful to Aquirus also for organizing this call on behalf of the company and also to Mr. Varun Mehta who has explained all the numbers in detail to everybody. So with this I take the permission from all of you. Once again thank you very much for taking your time.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Equirus Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.