



**RAMKY INFRASTRUCTURE LIMITED**  
**Q1 FY 11-12**  
**Investor Conference Call**

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**Ramky Management:**

**M Goutham Reddy - Executive Director, Ramky Group**

**R S Garg – Chief Financial Officer, Ramky Infrastructure Ltd**



**Moderator:** Ladies and gentlemen, good afternoon and welcome to the Q1 FY12 Results Conference Call of Ramky Infrastructure Limited, hosted by Enam Securities Private Limited. As a reminder, all participants will be in the listen-only mode. Please note that this conference is being recorded. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. I would like to hand the conference over to Mr. Rajarshi Maitra from Enam Securities. Please go ahead, sir.

**Rajarshi Maitra:** The management will be represented by Mr. M. Goutham Reddy, Executive Director of Ramky Group, and Mr. R. S. Garg, our CFO of Ramky Infrastructure Limited. I would request the management to give a brief on the results and the outlook, post which we will proceed to the question and answer session. Sir, if you could give your comments please.

**Goutham Reddy:** I will give you a quick overview of Ramky Infrastructure. As all of you are familiar, Ramky Infrastructure continue to be in the same areas as we have been in the past, which is two main lines of business; the EPC business and the development of Infrastructure business. In the EPC business, as you know, we have six main areas of focus which includes water and waste water, irrigation, roads and bridges, building construction, industrial, power transmission lines and in the developer business we are focusing on industrial parks, roads, transport terminal and building projects. We have got 16 BOT projects with the developer business; 7 industrial parks, 5 road projects, 1 transport terminal and 3 building projects, all of these projects put together have an equity investment committed of 470 crores, of which about 220 crores has been invested. In the EPC construction business we have got about 12,000 crores of closing order book as of right now and the order book has continued to be robust, quality order book and reasonably decent visibility. The company's core philosophy continues to be same where the EPC business constantly continue to believe that sectoral and geographical diversification, we will focus on men, materials, machinery and money, ensuring that they are all rightly deployed as the key pillars of business development while ensuring corporate governance, while ensuring the working capital efficiency and ensuring execution efficiency are maintained is constant and in line with the philosophy the company is growing quite well.

In terms of the performance of the quarter, I think the quarter has been quite a decent quarter despite the cost of capital being quite high right now despite that the company has performed quite well.

In terms of the consolidated results I am sure some of you would have seen, for the benefit of others who haven't, the company has achieved about 752 crores of consolidated revenues and a profit after tax of 44 crores, both representing 67% and 61% respectively in terms of growth compared to the previous quarter which we believe is quite a decent achievement. This is broken up into the standalone company and the developer business with standalone company achieving 602 crores revenues with a profit after tax of 32.35 crores, which again represents about 48% revenue growth and EBITDA growth while profit after tax growth has been about 26% and I think the overall performance is largely in line with the expectations of Q1 and meet the management's expectations in terms of the performance of quarter. I hope

that will set the direction for our discussion for today and I will be happy to start discussing on the results and any questions that you all may have.

**Moderator:** Thank you. We will now begin the question and answer session. Our first question is from the line of Mr. Aditya Vikram Gupta from CD Equisearch. Please go ahead sir.

**Aditya Vikram Gupta:** Congratulations on a great set of numbers sir. Sir, can I have a break-up of the order book sir?

**Goutham Reddy:** The order book is approximately broken up into sectorally, if you look at Roads and bridges constituting 35%, Water and Waste Water constituting 22%, Building Constituting 16%, Irrigation 13%, Industrial Construction 9%, Power Transmission and Distribution about 5%.

**Aditya Vikram Gupta:** Okay. What is the geographical breakup sir?

**Goutham Reddy:** Geographically, South zone constitute 37%, North zone 25%, West and East zones 13% and Central zone 12%.

**Aditya Vikram Gupta:** Okay, seeing a hike in the interest rate. What is the average cost of debt that the company will incur sir?

**Goutham Reddy:** The average cost of debt has reached close to 12%, it is between 11.5% to 12%, but we are seeing that it is going to be around 12% for the reasonable visible time between 12%-12.5%.

**Aditya Vikram Gupta:** Okay. And seeing the consolidated results, in last quarter, we had a tax rate of about 21% and in June quarter the tax rate has jumped up to around 30%.

**Goutham Reddy:** The consolidated results you are telling?

**Aditya Vikram Gupta:** Yes sir, I am talking about the consolidated results sir. So can you throw some light on that sir?

**Goutham Reddy:** Well, it will be a function of the product mix. Basically, the difference between the standalone and the consolidated company, there is 16 SPVs that we have. Of 16 SPVs we have a few SPVs which have a tax exemption like the international operations which is getting consolidated is a zero tax which is based out of Dubai. We have Pharma City based out of Vizag which is a 80IA eligible project and we have a few road projects which have certain tax exemption. We have some building projects, transport terminal projects which are fully taxed. So depending on the profitability of each individual company the tax rates will change, it is purely a function of the product mix.

**Aditya Vikram Gupta:** And sir, we are starting one project in Africa sir, so can you throw some light on that sir?

**Goutham Reddy:** See, in Africa, we are executing an EPC contract for a company called GSEZ. GSEZ is a joint venture of Government of Gabon and an Agri-Trading company of Singapore by name OLAM. GSEZ intends to establish a timber SEZ which is a timber processing zone for which they wanted to develop an industrial park. Basically, very similar to the pharma industrial park that Ramky has developed and looking at that, they have asked us to be an EPC contractor for that

project and it is about \$89 million EPC contract that we have taken for them. This project is scheduled for commissioning sometime during September, October of this year. So, substantial part of this project is expected to be completed by end of this year. In addition to this, we have also bagged an electrical transmission line contract, again to connect the SEZ to the main power supply system of Gabon. So these are two contracts that we are executing. 100% we are working on a positive working capital basis, which is we are working on a positive cash flow with mobilization advance of the client.

**Aditya Vikram Gupta:**

And sir, what is the size of the power project sir?

**Goutham Reddy:**

It is not a power project, it is a power transmission and distribution where we are connecting the power source through our industry park. It is approximately \$19 million contract.

**Moderator:**

Thank you. The next question is from the line of Mr. Amit Ganatra from Religare AMC. Please go ahead.

**Amit Ganatra:**

What is the order inflow for this first quarter FY12?

**Goutham Reddy:**

The order inflow is about 1600 crores.

**Amit Ganatra:**

What was the last year first quarter?

**Goutham Reddy:**

I do not think I have that number with me, but we will revert back to you separately.

**Amit Ganatra:**

Okay. Second thing is what is the standalone and consolidated gross and net debt numbers?

**R.S. Garg:**

Compared to March 2011, our debt and standalone gone up by over 100 crores and SPVs which are basically Road projects which we have borrowed has gone up by another 150 crores during this quarter. Out of 16 SPVs my Road projects are going on project phase and there we have borrowed for the construction work.

**Amit Ganatra:**

Okay. Also last quarter basically there were some loans and advances which is standing in favour of some subsidiaries. Have you got converted into investments?

**R.S. Garg:**

Partly yes and partly it will be done in the second quarter. As and when loans drawl take place, progress further on the road projects will get cleared in September quarter.

**Amit Ganatra:**

Now, how much is the total investments in the subsidiaries?

**R.S. Garg:**

On the equity front, our commitment is about 450 crores. Out of which 230 crores is already done. This year we are supposed to add another 130 crores. Most of it is already available with SPV in the form of working capital. So there will be no new additional cash outflow to them during the year. Once we get loan we draw that and convert that into equity.

**Amit Ganatra:**

So sir basically 450 crores is the total commitment, of which 230 crores is already been made.

- R.S. Garg:** Yes.
- Amit Ganatra:** The other 130 you are saying is basically....
- R.S. Garg:** Already invested in the form of working capital.
- Amit Ganatra:** So from your parent company and the investment has already been made as and when they are able to draw down of their loans, this will get converted into equity?
- R.S. Garg:** Yes.
- Amit Ganatra:** Okay. So 230 plus 130, and the rest needs to be invested?
- R.S. Garg:** part of it will be 2012-13 and some portion of it will be in 2013-14.
- Amit Ganatra:** And now this funding cost as you mentioned in response to previous question has gone up to 11.5-12%, right?
- R.S. Garg:** That is our average cost of fund as of now, it has come to 12% now. Going forward, we expect it to go up by another 0.5-0.6% and I think we do not expect for the increase in rate from there and we hope that we will be able to share with this or maybe another point to 0.5% higher if RBI still continue with their hikes.
- Amit Ganatra:** This funding cost basically immediately gets reflected in the EPC side of the business, but on the SPV business there are lot of reset clauses, right?
- R.S. Garg:** They are still in projects stage which are drawing heavily on loans, they are still in a projected stage. The interest gets capitalized its a part of their IRR.
- Amit Ganatra:** Whenever basically they start the commercial operations, that is the time when the interest cost that must be prevailing then as compared to what it was at the time of sanctions and all that were made would not that be a huge difference?
- R.S. Garg:** The financial closure we did was in last quarter and first quarter of this financial year. So, we do not think that we are going to be adversely affected severely on this, maybe minor, yes, minor cost escalation definitely will be there. But they will be within our control, because all EPC work is done by us. It will not make a big dent in the working.
- Amit Ganatra:** And all the SPVs that are currently under construction is the current progress is that what you had earlier envisaged or are there any delays in any of the roads projects sir?
- R.S. Garg:** There are two Roads projects there are certain delays. But they are with the consent of energy they could not give us front end time and we are not going to be adversely affected by it. Because our execution time get reset.

- Amit Ganatra:** And what about the working capital? Currently, what is the total amount which is invested in the working capital?
- R.S. Garg:** Across this quarter our debtors position has improved. We have come down by about 90 crores from debtors.
- Amit Ganatra:** Absolute amount has come down, is it?
- R.S. Garg:** Absolute amount has come down.
- Amit Ganatra:** But is this compared to fourth quarter or this basically compared to March quarter or previous year first quarter?
- R.S. Garg:** March quarter. I have to check on cumulative figure, not period to period.
- Amit Ganatra:** Right. So debtors you are basically down by 90 crores?
- R.S. Garg:** Yeah, 90 crores. We have increased our current liabilities and loans and advances because we could garner little more amount on mobilization advance. And since most of it mobilization advances goes to our subcontractor, our B2B contractor, both sides of the assets and liabilities gets inflated. So they are back to back and that is where we have about 60 crores increase which we hope to bring down by September quarter. In fact, they have already come down in August.
- Amit Ganatra:** What about the inventory?
- R.S. Garg:** Inventory has also come down by about 60 crores.
- Amit Ganatra:** So I believe the interest amount which is stable basically quarter-on-quarter it has not gone up?
- R.S. Garg:** Actually, our working capital management has been under control. We have not done any aggressive activity. If you see it from March to June, advantage for us is most of the BOT projects which we are doing, EPC done by us, and we took a wise decision of investing in that through working capital during March quarter and that means my loans got delayed, borrowings got delayed and now I am getting it back and it helps me in keeping the current assets under control.
- Moderator:** Thank you. The next question is from the line of Mr. Rohit Agarwal from SBA Securities. Please go ahead
- Rohit Agarwal:** Sir, what is the order pipeline as of now?
- Goutham Reddy:** 11,600 crores.
- Rohit Agarwal:** And we are L1 in?

- Goutham Reddy:** L1 is about 1200, 1300 crores and other 11,000 to 12,000 crores is yet to be opened.
- Rohit Agarwal:** And sir how do you see the order inflows going ahead?
- Goutham Reddy:** I think order inflows are quite normal. Do not see very unusual trend at this stage.
- Rohit Agarwal:** And sir what is our exposure to the State of Andhra Pradesh?
- Goutham Reddy:** We have approximately 29, 30% expose to Andhra Pradesh. But of which, a large chunk is our own BOT projects which is the Road project. If we take that out probably it will come down to about 15% odd in that range.
- Rohit Agarwal:** Okay. And what is the ground reality in Andhra Pradesh with regards to both order inflows and execution part sir?
- Goutham Reddy:** I do not think there is any unusual trend except that we have got about 9% of our order book coming from the AP irrigation project which probably slightly slow moving because of the focus on the irrigation, but other than that other projects are moving quite normal.
- Moderator:** Thank you. The next question is from the line of Hema Bindu from ICICI Bank. Please go ahead.
- Hema Bindu:** Can you explain about the road projects that you are handling?
- Goutham Reddy:** We have got five road projects totally. Four of them are on an annuity-basis and one is the toll road. Out of the four annuity projects, one is a state project which is the Hyderabad outer ring road plus annuity projects which is a national highway, which is the Gwalior Bypass. These two projects are in terms of execution completed. However, the Gwalior Bypass project is yet to achieve POD formally from the NHAI, ORR has actually achieved the POD from the State Government of Andhra Pradesh. So two projects are completed, annuity projects. We have got two more annuity road projects; one is in Jammu & Kashmir, Srinagar to Banihal, the other one is Assam, Meghalaya segment, Jorhat to Shillong. These two annuity projects, financial closure is achieved, work has just about commenced in both of these, the headway is about 8-10% progress on both of these projects. We have one Toll road and that is again State Road Development Project which is in Andhra Pradesh, we have toll road connecting from Narketpally-Addanki-Medarmetla which is the main connecting road between Hyderabad and Chennai, which is state highways, which connects through national highways, to make connectivity between Hyderabad and Chennai, that is the toll road, that is about 40% viability gap on the toll road. These are the five road projects that we have.
- Hema Bindu:** Okay. Sir, which segment is contributing more to your profitability?
- Goutham Reddy:** I think profitability in terms of EPC business is quite equally distributed among all sectors. Probably the water and roads sectors will get towards the 12.5, 13% EBITDA ranges while the Building, Irrigation and the Industrial Construction will be closer towards the 9, 9.5, 10% EBITDA ranges but I will say within these also, some good projects in the Building sector will get us 13% and Road will get 10, average we are in 11, 11.5% EPC business end of today. But in



terms of the overall company, currently, a large chunk of our consolidated profitability are coming from Pharma City which is industrial park in Vizag, the Ramky Towers which is the Residential Building project in Hyderabad and the international operations from Gabon. These three are contributing fairly decent amount to the consolidated profits of the company.

**Hema Bindu:** Sir can you repeat the last three names?

**Goutham Reddy:** Ramky Park City in Vizag, Industrial Park project, Ramky Towers Limited in Hyderabad which is a residential building project and the international operations from Gabon. These are the three projects which are contributing higher towards the consolidated profitability.

**Hema Bindu:** And balance whatever the equity is to be infused, you told that it will be in 2012 and 2013 and '13 and '14?

**Goutham Reddy:** Yes, 2013 and a little bit extending to '13, '14 but the current year, there is some money lying in the subsidiaries are working capital which will change it equity capital once the draw down from the banks is commensurate.

**Moderator:** Thank you. The next question is from the line of Jaspreet Arora from Anand Rathi Financials. Please go ahead.

**Jaspreet Arora:** Just wanted to confirm the order inflow. Last quarter we closed at something 11,000 crores and it is around 11,500 crores now and we have done execution of around 600 crores. So, netted I am getting inflow of roughly 1100 crores whereas you mentioned about 1600 crores so just wanted to figure out the difference?

**Goutham Reddy:** I guess you maybe correct, I will just verify the numbers. Maybe some L1 data is also included in this but we will verify that number.

**Jaspreet Arora:** Sure and the second one is in the last conference you had mentioned you got about 6000 crores plus inflows in financial year '11 and within that there was a big chunk of the capital BOT projects. So given this scenario and the way things are in the infra space and the kind of verticals that we are present in, what is the kind of outlook and guidance that you can give for the current financial year with regards to order inflows?

**Goutham Reddy:** I recognize that we have not been very aggressive on any road projects. If you look at our situation for example in roads which constitute to the largest part of the captive, in the last year out of the 6000 crores, about 2800 crores was coming from the captive road project so which means 3200 crores was the Andhra order inflow, 2800 crores was the captive roads project inflow. Now, within that also if you look at we do not have any toll roads, we have won only annuity road, till today we have not won a toll road for the national highway, we have won one toll road from the State Road authority That does not mean we will be aggressive and be it and run behind order books our philosophy is that our equity is more prime for us and it is not the EPC order book that drives our bidding process. If we do not win we would not be in a hurry or rush. And in terms of the order book outlook wise, yes, we are expecting decent

order book, we are expecting at least another 6000 crores or so in the current year while no specific target is that we expect we will get some decent order inflow. Nevertheless, that does not drive our ambitions, that does not drive our approach to bidding. If we do not win, I do not think we will be feeling bad about it because whatever we will end up we will be still good enough for another 2.5, 3 years visible revenues. So we will not be in a hurry and I want to reiterate it is not a part of the target that we have.

**Jaspreet Arora:** Sure. And out of the segments that you mentioned, the biggest chunk is roads followed by water. Is it right, 35 and 20% respectively?

**Goutham Reddy:** You are right, Roads, Water, Building constitute three large segments...

**Jaspreet Arora:** Okay. And how are things in the building and water space out here, I mean what is the traction with regards to the orders and have you seen any slowdown in any of the ordering in any of the state governments?

**Goutham Reddy:** Honestly no, I think both the water, building segment is also going quite well. Even the roads we have seen quite a few roads have been bid in the last quarter, we have bid at least four or five large roads, but all of which we lost as a BOT developer, but we still tend to believe there will be EPC opportunities, within the lost BOT opportunity, so we are not feeling that there is any negative trend in order inflow or anything like that. Very surely a slight slow down because at national level there is a revised thinking on the corruption and mega issues which is surely adding to a little bit of slowdown, but does not really be a matter of concern.

**Jaspreet Arora:** Sure. I do not have your results handy, so if you can just help me with the EBITDA margins on a standalone basis for the last quarter and just wanted to check if there is any compression over there?

**Goutham Reddy:** On the revenue we are 602 crores, and on EBITDA we are about 69 crores, which constitutes about 11.5, 11.6%. There is in fact a slight expansion on the contracts. However, the expansion is on account of the fact that our fixed assets have gone up last year and therefore, the absolute depreciation has moved up by 0.5%.

**Jaspreet Arora:** Okay. And just last on the working capital that Mr. Garg was mentioning sometime back, sir you are comparing it on a quarter-on-quarter basis, is that right?

**R.S. Garg:** Yes.

**Jaspreet Arora:** So would have the revenues been down as well, so if you could just give the figures of debtors and inventory and creditors in terms of number of days, how is that?

**R.S. Garg:** In terms of number of days because last quarter top-line was 1,000 crores plus. This quarter is 602 crores on a standalone basis. Number of days is a little higher.

**Jaspreet Arora:** On the debtor side?

**R.S. Garg:** On the debtor side.

**Jaspreet Arora:** What are they right now?

**R.S. Garg:** At around 152.

**Jaspreet Arora:** And the inventory side?

**R.S. Garg:** Inventory side is almost same because inventory reduction is little higher.

**Jaspreet Arora:** What is your number sir?

**R.S. Garg:** About 64 or 67.

**Jaspreet Arora:** And how about the creditors?

**R.S. Garg:** Net working capital is at 122 now.

**Jaspreet Arora:** Okay. That is right sir. And just last thing on the interest percentage number that you gave 12% and you said it could go up to by another 0.25 to 0.5%. Does this kind of factored in further policy hikes of RBI or you are taking into account the last hike and that was done and which is still to be incorporated by some of the banks?

**Goutham Reddy:** The hike done by RBI last time is already factored.

**Jaspreet Arora:** It is already. So you expect it to maybe peak out somewhere close to 12.5% for your company at an average level?

**Goutham Reddy:** Yes.

**Moderator:** Thank you. The next question is from the line of Mr. Harish Venkateswaran from Nomura Securities. Please go ahead.

**Harish Venkateswaran:** Congratulations on the excellent set of results. Sir, actually if you look at some of your competitor companies of the other construction company, most of them have reported a very low growth figure. Maybe in a low single-digit growth and what they are saying is that there are issues regarding sub-contractors executive because sub-contractors are not getting money because of the high interest rates and they are going slow on execution. Similarly clients are not paying up because they again have a problem with funding. So again the construction companies are slowing down execution. But your results do not seem to reflect any of these. So I am checking are you seeing any such signs now or is there any discomfort among your sub-contractors or your clients?

**Goutham Reddy:** No, actually we are not. In fact, we are not a very heavily sub-contractor driven company. We do have a lot of sub-contractors but we are a primary contractor and we execute a lot of projects ourselves. So in terms of sub-contractors that does not influence our whole executive

and progress. However, in terms of client payments we have not seen any slowdown and I think things are quite normal. Except as I said in the AP state irrigation projects there has been a sort of slowdown, other than that we have not seen a significant slowdown of client payments.

**Harish Venkateswaran:** Other than that there are some issues like land acquisition, land clearance also which states is just an impediment to execution. So is there any such issue in any of your either BOT projects or in the cash contracts?

**Goutham Reddy:** As we had indicated a little while ago, there is a certain slippage in time on some of the road projects because of the land front, however, all of the reason is attributable to the NHA and we do not foresee any adverse affect to the company. There are slight delays but nothing significant to affect the overall business plan of the company.

**Harish Venkateswaran:** So we can expect this level of execution of continue, the revenue growth to continue?

**Goutham Reddy:** Please do not expect the percentages of growth because that is a very high number we have achieved but surely the growth will be better than the research expectations that have been put out in the quite a few of the research reports. The percentages of growth surely are quite high because Q1 is actually a fairly decent quarter usually for us because it gives us full time and Q2 is probably generally not the greatest quarter for construction sector. So do not look at the percentage terms but growth will be robust. I do not foresee any unnatural things, I do not foresee any surprises to come up but percentages of growth are not going to be like the historical.....

**Harish Venkateswaran:** Regarding the development business, for this quarter you have recorded a revenue of 115 crores in the developer business, according to the consolidated statements. If you can give us the split up of which are the projects and how much revenues from each of these developer projects have come in this quarter?

**Goutham Reddy:** I will tell you the larger ones while not touching upon all of them. We have got 34 crores of revenue coming from the international operations which is the company based out of Sharjah, which is called Ramky Engineering & Consulting Services based out of Sharjah. We have got about 70 crores coming from the road projects in Andhra Pradesh. About 28 crores of revenue coming from the industrial park project which is Ramky Pharma City 17.7, revenue coming from the Ramky Towers project which is a residential project in Hyderabad. These are 4-5 large contributors to the revenue and also contributors to the profit.

**Harish Venkateswaran:** I missed your number on the Ramky Towers.

**Goutham Reddy:** Ramky Towers is 17.7 crores revenue.

**Harish Venkateswaran:** On the road, you are saying 70 crores, but this is still under construction, Narketpally-Addanki so....

- Goutham Reddy:** We are adopting the SCA method of accounting which basically looks this as a financial asset and not an asset on our books and we are following this consistently, this method of revenue recognition.
- R. S. Garg:** In fact when you look at the standalone account of the EPC business and SPV, this income does not get recognized but when we draw a consolidated account, under accounting standard 21 we need to follow SCA method. In that, since it is treated as financial asset, we need to take an IRR based earning during construction phase also. So this is not actually based on the earnings and cash flow, it is accounting policy related top-line.
- Harish Venkateswaran:** It will be applicable in this period?
- R. S. Garg:** During the life of the project.
- Harish Venkateswaran:** Because there is no revenue from any of the other road projects.
- R. S. Garg:** This figure depends on the status of progress.
- Harish Venkateswaran:** We can expect some revenues from the other projects in the next fiscal?
- R. S. Garg:** All the projects in roads will contribute through SCA method.
- Moderator:** Thank you sir. The next question is from the line of Jitesh Bhanot from Emkay Global, please go ahead.
- Jitesh Bhanot:** Congratulations on the great set of numbers. Just in conjunction to what the earlier participant was asking, if you can throw some light on this SCA because what we understand is that BOT projects do not qualify for such method. It's only the annuity project that does so Narketpally-Addanki are we charging under SCA or is it of separate accounting method?
- Goutham Reddy:** It is SCA.
- Jitesh Bhanot:** It is under SCA. We have already started booking, right?
- Goutham Reddy:** Yes.
- Jitesh Bhanot:** And can we have the percentage completion of all the projects under construction, how much has already been done so far?
- R. S. Garg:** In last six months we have progressed a bit maybe about 7% to 8%.
- Jitesh Bhanot:** In Narketpally-Addanki?
- R. S. Garg:** Yes.
- Jitesh Bhanot:** And for the remaining projects, what will be the percentage like of the completion part?

**R. S. Garg:** Srinagar-Banihal we have started about a month back and that is at a very initial stage like mobilization is done and good amount of work has been done. In terms of value it may not be big but in terms of physical progress it has moved quite a bit. Gwalior bypass project is almost at the completion and Jorbat-Shillong is also like Srinagar-Banihal, mobilization is done and remaining work has been started.

**Jitesh Bhanot:** By when are we expecting the COD for Gwalior bypass?

**Goutham Reddy:** It should have been there by now, there is slight delay on NHAI to actually come interpret and close it. We're hopeful it should get done during this quarter.

**Jitesh Bhanot:** And few things I would like to understand on the macro front is you have mentioned about your segmental EBITDA margins. Has there been any kind of sequential change in the kind of margins because of cost pressures and water front or road front?

**Goutham Reddy:** Not really because if you look at our sensitivity, we have got three kinds of material which determine our call commodities like cement, steel, bitumen which are driven by commodity prices they are limited control in terms of what will be able to achieve except where we have a pass through with a client, to the extent possible we try to see if we can pass this cost to the client. However, in certain BOT projects we will be constrained because even if we pass it to the client it's our own self, impacting in one way or other to a certain percentage of our equity there will be some impact on the commodity price related thing. Different set of materials like aggregate, sand and these kind of bulk volume items, what we try to do is we do backward integration of these materials. So which means the moment we win the large project we tie up with a quarry and we put up our own equipment to manufacture these. So for crushers, we put up our sand quarries, we put up our excavators to mine the sand and things like that and therefore for the life of the project our size is reasonably controlled. Why reasonably I can say we will be 100% kind of control and typically they end up giving us a positive margin because we end up taking higher material prices. This we call it a backward integrating ourselves to our material requirement. But third set of materials are procurement items like pipes and wooden frame and procurement items. These procurement items as soon as we win a project or in some cases during a bidding stage we are doing a long term tie-ups with vendors. For a particular project the price is fixed with the vendor. So what we end up doing is we pass the certain cost to the clients, we backward integrate ourselves for a certain part of the cost, pass that cost to the vendor in different circumstances to ensure our profitability is reasonably maintained. That is why we are saying historically that our EBITDA margins move only between 9.5 to 11.5 because we are neither taking advantage, neither getting disadvantage.

**Jitesh Bhanot:** In certain cases like road segment where bitumen plays a kind of quite a critical role and it comprises almost 35%-40% of the cost and its again an open-ended commodity as per your comment itself that it is market determined. So is there likelihood of any margin tweak maybe and the end of the project when we are in process of using full-scale bitumen for our BOT.

- Goutham Reddy:** Typically where the prices are not passable there we take a fairly large cushion and we fairly locate historical trend of inflation and try to build it into the costing model. However, it has a plus and minus, you could see a surprisingly profitability coming up if suddenly the prices go down, suddenly the profitability going down. However, the affect of this if you look at approximately these components constitutes about 20%-30% of our total purchasing items. In that I have got another 50%-60% where I pass it on to the client, 40%-50% of our own projects where we can't pass it to the clients. So the net impact is of 11% and on equipment rises believe that the impact is typically going to be negligible.
- Jitesh Bhanot:** And last question would be I just want to understand the breakup, is if you can share the fixed part of the entire order book like what will be fixed cost and what will be cost plus contracts in the entire order book?
- Goutham Reddy:** If you look at the 11,500 crores about 2800-2900 crores order book is in-house BOT. Therefore it is either moving up or down it is within the impacted zone. The remaining 78% more than 60%-65% is a client pass through orders now. Substantially they are what we call as star price linked pricing which is the key commodity prices are linked and protected.
- Jitesh Bhanot:** Dwelling on this particular point we heard your competitors saying something about the escalation going through only post some time like close to 2 odd years or 2.5 odd years. Are there any such contracts in our order book as well where the cost escalation mode go through only post 2 odd years and we will have to take a hit in the interim?
- R. S. Garg:** No, we have not come across that.
- Jitesh Bhanot:** What's the general timeframe for the cost escalation as and when it happens, in the end of the quarter or is it an yearly thing?
- Goutham Reddy:** No as and when it happens we pass the cost.
- R. S. Garg:** Different contracts will have varied terms. On an average it is passable on a quarterly or frequency of the billings.
- Moderator:** Thank you Mr. Bhanot. The next question is from the line of Naveen Jian from JM Financial, please go ahead.
- Naveen Jain:** Sir the first question was on this accounting treatment that you just spoke about 70 crores that was booked in this AP project under SCA. Just want to understand when you consolidating probably this 70 crores would have been there in your standalone as EPC revenues, right?
- R. S. Garg:** No not necessary. Because EPC revenue and this goes differently. Typically SCA allows us to can calculate my profit and top-line based on my IRR set in the project and percentage of work I have already build. So they may not be going in tenure.

- Naveen Jain:** So suppose you have done work as an EPC contractor so you have done work of 60 odd crores and as per your SCA calculation at the SPV level it is 70 crores when you consolidate overall 70 crores will come or is it 70 plus 60 crores.
- R. S. Garg:** I will have to actually take 70 crores as top-line. Profit will be based on the cost incurred versus SCA top-line..... So it is the revenue which is getting driven through IRR route.
- Naveen Jain:** So it will be 60 crores which was there in the standalone basis will get eliminated?
- R. S. Garg:** Yes.
- Naveen Jain:** In your number your standalone is 600 odd crores and consol is about 750 crores for the quarter?
- R. S. Garg:** No consolidated it doesn't get eliminated, it stays there.
- Naveen Jain:** So basically in the way there is double counting of EPC revenue?
- R. S. Garg:** EPC contract is into standalone yes.
- Naveen Jain:** What would be the corresponding profit that was there at the SPV level on this IRR based booking or SCA based looking?
- R. S. Garg:** That is around 11 crores. What happens, it goes along with the progress of the project. So, once the project is completed the subsequent years will take lesser top-line and profit. Over the period of life of project it gets equalized.
- Naveen Jain:** Second question was on your order inflows, you said 1600 crores was the order inflows for the quarter so if you could just share the breakup in terms of with segment you got orders from and what kind of clients you got orders from?
- Goutham Reddy:** We have got orders from Rajasthan urban infrastructure regarding the water and wastewater treatment projects which include underground drainage system, water treatment plants, wastewater treatment plant. We have got sewage treatment plants for Dehradun city which is in the Uttaranchal, we have got a hydropower project from Chhattisgarh for a 50 MW hydropower project, and we have got mining contract from Orissa Mining Corporation. But largely it will be distributed between the water sector, industrial sector and few other sectors.
- Naveen Jain:** The orders that you spoke about the first three were probably announced in the exchange so that was about 500 crores the Orissa mining orders would be done is about 1000 crores, is that right?
- R. S. Garg:** No Orissa mining is about 50-60 crores. There are some which are not announced in the press within the water and the building sector that we have bagged now. But as someone rightly pointed out probably the order inflow may of the 1200-1250 crores and another 400 will be pipeline the 800 crores.

- Naveen Jain:** About 600 crores and all about 50-60 crores Orissa mining and balance 400-500 crores of building and all that?
- Goutham Reddy:** Largely in industrial sector is what we have bagged.
- Naveen Jain:** And are you still getting appointed debt in your BOT projects?
- Goutham Reddy:** No we have appointed debt for all the projects.
- Naveen Jain:** Could you share the debts, is it possible?
- Goutham Reddy:** It will be better if you call and have it offline.
- Naveen Jain:** What was the incremental sales in the Ramky Pharmaceutical project in this quarter in terms of acres?
- Goutham Reddy:** It maybe about 10 to 12 acre but maybe not immediately off my head.
- Moderator:** Thank you Mr. Jain. The next question is from the line of Sagar Parikh from Enam Holdings, please go ahead.
- Sagar Parikh:** Sir out of year 28 to 29,000 crores in-house BOT order book, could you just give me the breakup of the same and how is it executable over 2 to 3 year period?
- R. S. Garg:** This is largely coming from the road projects and the residential projects which is the Ramky Towers which is being built in Hyderabad and a little bit of work pending from Ramky Pharma City.
- Sagar Parikh:** Sir would you quantify project wise?
- R. S. Garg:** Let me tell you off line, I'm not giving you the exact numbers. We have got the Narketpally-Addanki road which is costing 11,000 crores contract, we have got the Srinagar-Panihal probably another 1000 crores, Jorhat-Shillong project which is about 550 crores contract, Ramky Towers must be closing balance of another 100 crores, and miscellaneous contributing to another 50 crores.
- Sagar Parikh:** In your break up which you said your Pharma City 28 crores is correct me if I'm wrong, 28 crores form Pharma City, 18 crores from Ramky Towers and another 70 Crores from road projects?
- R. S. Garg:** Yes.
- Sagar Parikh:** Which is that 70 crores, that is a Ramky Hyderabad outer ring road project?
- R. S. Garg:** No Narketpally-Addanki Road which I told you about 1100 crores contract. Outer ring road is a completed project, COD has been achieved.

- Sagar Parikh:** So how much annuity did you earn?
- R. S. Garg:** It is a semi-annuity of about 33 crores which means annually we will get 66 crores.
- Sagar Parikh:** So you have not booked any of that at this quarter? This 70 plus 28 plus 18 plus 34 doesn't come to 115 which you have....
- R. S. Garg:** I have only told you five projects, if you want exactly breakup I have got Ramky Towers which is 17, Ramky Enclave 1, then I have got Pharma City which is done 28, I have got outer ring road which is only about 0.46 because we are recognizing against the annuity received which is the next quarter. We have got 74 crores from Narketpally-Addanki, 1.4 crore from Jorhat-Shillong, 0.87 crores from Gwalior bypass, 1 crores from the transport terminal in Dehradun and 35 crores from the international operations all putting up to the total.
- Sagar Parikh:** So it comes more, right? If you at the 34 then it comes to around 130 crores?
- R. S. Garg:** Correct our total is about 750 crores. 750 crores is our consolidated revenue as against 602 crores standalone revenue.
- Moderator:** Thank you Mr. Parikh. The next question is from the line of Romil Jain from Quantum Advisors, please go ahead.
- Romil Jain:** I have a question on the water and wastewater and irrigation segment of your order books? The order book in irrigation and wastewater is around 35% both combined. So on a macro front how are we seeing the competition in this segment and how are we positioned to be competitive in this space?
- Goutham Reddy:** We can break it up into two things, water and wastewater is more an urban infrastructure kind of a set-up whereas irrigation is more of a rural infrastructure kind of a set-up. Within the irrigation set-up the progress is quite slow right now because most states are going a little slow including Andhra Pradesh which is going a little slow. Competitively there are a few companies but whenever the opportunity emerges the opportunity is generally large and therefore you will have a certain amount of opportunity to bite on. When it comes to the water and wastewater sector that constitutes 22% of the 35 that is indicated. The competitive landscape is better than other sectors, we end up competing between 6 to 8 people for water projects compared to 25-30 for a road project. So opportunity is better, competitiveness is comparatively smarter and there is a little bit of technological qualification that is required that adds to the progress. I would position ourselves in a better position in water wastewater. However, the size of most of these projects is small. So, in terms of absolute number projects I think I will have the highest water and wastewater projects but in terms of percentage it is not the highest growth will take over with these 5-6 projects.
- Romil Jain:** In terms of the major raw materials for water and wastewater as well as irrigation what would be there, the major raw materials which can be....

- Goutham Reddy:** Water and wastewater again very normal cement, steel based structures because we use cement structure for the base and for the mechanical equipment we use steel structures but largely cement and steel are the commodities that determine water-wastewater projects. Irrigation is more earth work and cement driven so you see a lot of earth work related cost and cement and steel related cost use in irrigation.
- Romil Jain:** In that terms we do not have to depend more on suppliers, there are many suppliers of cement and steel and all so there is lot of major dependence on any particular supplier?
- Goutham Reddy:** There is no supplier related issue.
- Romil Jain:** In terms of the order book that you told you it is around 12000 crores of order books, can I get a breakup in terms of client exposure like the top 3 or 4 clients?
- Goutham Reddy:** Largely you will find urban development authorities of various state governments of course if you look at directly or indirectly it will be NHA. Our exposure in state governments is 60%, central government 16%, private 23%, public sector units 1%. Within the state governments we are largely referring to the public health departments of the states or urban local bodies of the State government. Central government we are referring to large central projects or central government buildings like agricultural university or things like area which are under central government control. Private is mostly in-house BOT projects or a little bit of private work that we do and public sector unit is very small 1%.
- Romil Jain:** On the raw material and labor front, are you having any problem on sourcing raw material as well as labor we are seeing some cost escalation going forward in these?
- Goutham Reddy:** Manpower has been an issue for quite some time in the construction industry typically, despite being a huge populous country we find construction labor as a constraint but it's not an unmanageable situation or having any significant impact on the product pricing or costing of the project. It is in manageable level, we don't foresee it as a major concern.
- Romil Jain:** In terms of the average execution cycle of the company, a long-term contract would range from how many months in the short-to-medium term contract?
- Goutham Reddy:** Typically the roads and the irrigation are the longer tenor projects which typically tend to be between 2.5 to 4 years whereas all other projects tend to be 18 months to 30 months of project.
- Romil Jain:** And finally one more, on the debt equity front. Going forward how much debt equity ratio do you expect?
- Goutham Reddy:** We would be constrained if we have crossed 1.1 debt-to-net worth on the standalone balance sheet.
- Moderator:** Thank you Mr. Jain. On account of lack of time we would now take the last set of questions from the line of Sneha Poddar from Sharekhan. Please go ahead.



- Sneha Poddar:** If you could attribute to what factor has let your margin expansion and what would be the stable kind of margins you can expect?
- Goutham Reddy:** I don't think if you look at the margin, has expanded, if you look at the PAT level also standalone balance sheet there actually a slight reduction.
- Sneha Poddar:** I am talking about at the operating level?
- Goutham Reddy:** Which is on account of the interest cost, at the operating level there has been an expansion from 10.5% to 11.5% kind of EBITDA range primarily on account of our fixed asset going up. You will see that expansion in the depreciation expanding from 0.6% to 1.2%.
- Sneha Poddar:** And sir what's our CapEx program going ahead?
- Goutham Reddy:** I don't think they will be any significant CapEx in the current or next quarter.
- Sneha Poddar:** Going ahead can we expect some margins to sustain at 11.5%?
- Goutham Reddy:** Yes the EBITDA margins can be even I suspect will have a further spreads and we will move closer to the 12% range as the equipment gets fully deployed.
- Moderator:** That was the last set of questions on this call. I would now like to hand the floor back to Mr. Rajarshi Maitra for any closing remarks.
- Rajarshi Maitra:** I would like to take this opportunity to thank Mr. Reddy and Mr. Garg for taking time out for this conference call. Thank you sir.
- Goutham Reddy:** Thank you all very much. Have a good day.
- Moderator:** On behalf of Enam Securities that concludes this conference. Thank you for joining us on the Chorus Call Conferencing Service