

**C&C Constructions**



**Limited**

**Investor/Analyst Conference Call Transcript  
February 3, 2009**

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**Moderator:** Ladies and gentlemen good afternoon and welcome to the C&C Constructions Quarter and Half year 2009 results conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aly Rashid of Citigate Dewe Rogerson, thank you and over to you Mr. Rashid.

**Aly Rashid:** Good afternoon ladies and gentlemen and welcome to C&C Constructions Q2 and H1 FY2009 conference call. We have with us today Mr. G. S. Johar, Chairman of the Company and Mr. Tapash Majumdar, Chief Financial Officer of the Company. We will begin the conference call with opening remarks from Mr. Johar after which we will have an interactive question and answer session. I would now like to invite Mr. Johar to give us a brief overview on the financial performance and corporate development during the period under the review, over to you Mr. Johar.

**G. S. Johar:** Good afternoon everyone and thank you for joining us on this conference call, where we will discuss our performance and key developments for the quarter and half year ended 31<sup>st</sup> December 2008.

Before I begin, I would like to point out that certain statements made during this call may be forward-looking in nature and might differ from our actual results going forward.

Firstly, I would like to briefly take you through our financial performance for the quarter and half-year under review. During Q2 financial year 2009, C&C net sales stood at 1639 million compared to 862 million in the corresponding quarter last year, a 90% increase. Operating profits grew at 85% to 322 million versus 174 million in the corresponding quarter. I would like to point out that in both the quarters and half-year under review, we have been able to maintain our operating margins even in these challenging times. PAT in Q2 FY09, increased by 15% to 85 million compared to 74 million in Q2 2008. In the half-year under review, net sales stood at 2930 million versus 1354 million making an increase of 116%. Operating profits grew at 102% to 568 million. PAT in the period stood at 134 million against 123 million in the corresponding period, implying an increase by 9%. Interest expenses for Q2 stood at 160 million and for the half year at 315 million, indicating an increase of 257% for the quarter and 360 million for the half year. Our consolidated order book position as on December 2008 stands at 28,793 million, which has to be executed over the next 30 months, thus providing significant revenue visibility going forward.

We are encouraged by the number of opportunities that exist in the areas of our focus, even in these uncertain times. During the quarter under review, the company has been successful in landing a number of large orders both in India and Afghanistan. Before I take you through the recent orders, I would like to highlight that in line with our corporate strategy, we have bagged the majority of our orders in challenging geographies, where margins are higher than average. The company has taken particular care in accepting orders only from highly credible organizations like the World Bank, US AID, NHAI, and State Government Organizations, which are primarily funded by World Bank/ADB; in order to minimize risks that are otherwise high in these challenging times as well as the challenging areas.



The company has also benefited from its relationship with the long-term JV partner BSCPL. This JV has significantly enhanced our bidding capacity, enabling the consortium to compete for the bidding of high value projects that attract significant large player's interest. Domestically, in November 2008, the company was awarded four orders worth 9630 million from the Asian Development Bank in the State of Bihar. These orders entail rehabilitation of state highways in Bihar, of these 3850 million worth won independently, while the balance 5780 million were awarded in association with our JV partner BSCPL.

The company was awarded an order for 7810 million for a construction of 105 km Dedicated Freight Corridor from New Karwadiya to New Ganj Khwaja in Bihar, this is from UP into Bihar. The project has been awarded in association with BSCPL to be completed in 36 months. The project is wholly funded by the Dedicated Freight Corridor being managed by the Ministry of Railways. Internationally, in November 2008, the company received an order worth Rs.6350 million to construct the Afghanistan Parliament building and a new Indian Chancery in Kabul. The job has to be completed in 36 months for the parliament and 16 months for the chancery. The project has been awarded by the CPWD India and it is being funded by the Indian government. The order has also push-started our newly incorporated commercial building vertical.

I would like to point out that because we operate in uncertain geographies, we have paid and will continue to pay keen attention to land orders from credible clients. All these new orders awarded have been received from highly credible organizations, thus minimizing any client related risks. Before we open the floor for the question answer session, I would like to highlight, that the company and its management is dedicated towards growth and adding value for every shareholder. This is evident by our delivery of healthy operational and financial performance in an environment, which is not conducive for growth. We have in place a number of price escalation clauses and have taken numerous measures to ensure order receipts from credible organizations. These strategies have helped us maintain one of the highest margins in the infrastructure space. We remain positive on emerging opportunities in areas of our competence and will continue to focus in these segments. Our healthy unexecuted order book as on date has also provided us with significant flexibility to explore opportunities in our recently incorporated verticals. We have confidence in our abilities and are optimistic about the opportunities in the infrastructure space. It is our endeavor to maintain this growth momentum going forward. Thank you, I would now open the floor for questions.

**Moderator:** Our first question is from the line of **Rohit Gupta** of **KR Choksey**, please go ahead.

**Rohit Gupta:** Could you give me a break up of debt and cash on the books?

**Tapash Majumdar:** We have debt of around 400 odd crore and cash on books is Rs. 80 crore, so net debt would be about Rs. 320 crore.

**Rohit Gupta:** Could this debt be broken up into long-term debt or short-term debt?

**Tapash Majumdar:** Essentially these debts are all long-term in nature, with the exception of around 50-60 odd Crore, which would fall due in the next 12 months. But the rest of them are more in the nature of a term loan either for machineries or there is a cash-credit limit. When we talk about debts, we are talking about the complete debt of the company, whether it is a corporate loan, or working capital loan, or a term loan or any kind of a loan, the entire debt.

**Rohit Gupta:** What would be the blended average rate for this debt?

**Tapash Majumdar:** The blended rate would be close to about 14 percent.

**Rohit Gupta:** Could you give me some idea about your working capital condition, what was it at the end of September quarter and then working capital at the end of this quarter?

**Tapash Majumdar:** The working capital cycle as on end of September quarter and at the end of current quarter is not substantially different, as the total of work done during these two quarters combined is around 30% of our annual expected turnover. The net working capital cycle would be around 7 to 8 months.

**Rohit Gupta:** Are there any debtors, which are outstanding beyond 6 months currently on the books?

**Tapash Majumdar:** No there are not.

**Rohit Gupta:** In this quarter, your raw material expenses have come down by 2 to 3 percentage points, so can you point out some specific reasons or in which areas have you saved on your raw material costs?

**Tapash Majumdar:** The prices have come down during the last couple of months, they were at a peak if you have seen in the first quarter and subsequently the prices have come off from the top, so the advantage is there for all to see.

**Rohit Gupta:** Do you usually buy all your inventories at spot prices or do you enter into some longer term contracts?

**Tapash Majumdar:** No, most of them are spot prices. However some contracts are slightly longer term of 30 to 45 days depending on the delivery cycle.

**Rohit Gupta:** You have given us a revenue guidance of around 800 odd Crore for FY09, so are we in line with that?

**G. S. Johar:** Yes we are.

**Rohit Gupta:** My guess would be that your remittance would be in dollars for the Afghanistan orders?

**G. S. Johar:** Yeah they are all in dollars.

**Rohit Gupta:** So are there any Forex losses that you have accounted for?

**G. S. Johar:** No, there are no Forex losses.

**Rohit Gupta:** Could you take me through some balance sheet numbers like fixed assets, investments, and your net current assets?

**Tapash Majumdar:** As I said the net current assets would be about 678 about 7 odd months, the fixed assets, or gross block is at 276 as of 31<sup>st</sup> Dec, 276 Crore and we do not have any investments.

**G. S. Johar:** There is only one investment in the BOT project that is 40 odd Crore.

**Rohit Gupta:** What additional investment would come in the next 6 months in your BOT?

**G. S. Johar:** An addition of 10 Crore, we are to invest 104 Crore in the BOT project of which my share is 49%.

**Rohit Gupta:** What would be the figure of sundry debtors on your books?

**Tapash Majumdar:** I think sundry debtors would be close to about 3 and a half odd months. Our debtors are all outstanding for the last quarter and half. So, if our last three months sales have been 164 odd Crore then my debtor is going to be by-and-large 200 odd Crore plus.

**Rohit Gupta:** For the Afghanistan Parliament orders have you received any upfront payments from the Indian government?

**G. S. Johar:** Yes we have.

**Rohit Gupta:** Could you give me an idea about the percentage of the total order?

**G. S. Johar:** This figure is roughly around 5%.

**Rohit Gupta:** For the Afghanistan order what is the general trend of your upfront payment that is received?

**G. S. Johar:** Well, there is a bill at the end of each month and we will get paid about 75% in the first 15 days and the balance in the next 45 days.

**Rohit Gupta:** Is your BOT project development on track?

**G. S. Johar:** Yes, we are fairly confident that we will complete the project before schedule.

**Rohit Gupta:** By when can we expect it to be operational?

**G. S. Johar:** The schedule date is June 2010; we propose to have it ready by April.

**Rohit Gupta:** Is there any capex plan for the remaining year?

**G. S. Johar:** Yes, we have estimated capital expenditure of about 50 Crore for the project which we have got currently.

**Rohit Gupta:** In the last quarter, you said that your estimated capex was around 100 Crore, so any capex that has been incurred during the quarter?

**G. S. Johar:** Yes about 25 Crore have been incurred already in the half year and we will have an additional 50 Crore to be incurred during the remaining 6 months.

**Rohit Gupta:** These 25 Crore are for the procurement of fixed assets?

**G. S. Johar:** Yes, fixed assets, primarily machinery for our projects in Punjab, the World Bank funded projects in Punjab and Himachal.

**Rohit Gupta:** While going through the numbers of your orders from JP Associates; it has increased in this quarter from 545 odd Crore in the previous quarter to 552 Crore.

**G. S. Johar:** No, the order was for 575 Crore.

**Rohit Gupta:** Okay, sir similarly in case of Louis Berger again in previous quarter you mentioned that the order was for 157 Crore and currently it stands at 163 Crore.

**G. S. Johar:** If we consider it in terms of dollar; it will probably be the same. We have an order of \$85 million from Louis Berger and we have an order of \$126 million on the parliament, when we convert it into Indian rupees, that is how the marginal difference happens.

**Rohit Gupta:** Okay the order execution for the JP Associates and the Louis Berger Group projects are they on line?

**G. S. Johar:** The Louis Berger project is more or less on line. With the JP order, there have been some issues of availability of lands from the client.

**Rohit Gupta:** By how many months has this order been delayed?

**G. S. Johar:** There is no delay per se, but we have not been able to start as many fronts as we would have wanted to, so up to now we are fairly on line, but in the next 3 months if we do not get land then there are issues.

**Rohit Gupta:** What is the duration on the execution of this order for the JP Associates?

**G. S. Johar:** It is 2 years.

**Moderator:** Our next question is from the line of **Jay Prakash Sinha** of **Mangal Keshav Securities**, please go ahead.

**Jay Prakash Sinha:** You mentioned the average duration of execution. Is it for the whole of the order book?

**G. S. Johar:** Yes, on an average, there are some orders that you have to execute. The period ranges from 16 months to 36 months, so I just gave you an average.

**Jay Prakash Sinha:** That is quite interesting, considering the 2800 Crore of order book and assuming there are two years, so we are looking at around 1400 Crore and assuming 6 to 7 months or 7 to 8 months is the working capital cycle, So, we are looking at 1000 Crore of working capital and assuming the debtors are 3 to 4 months and if I deduct that, I am still in need of 500 to 600 Crore. How do you explain this gap?

**G. S. Johar:** During the execution period, if you view the investment note, we are talking of executing the balance 28% in financial year 2009, which takes us to about 800 Crore, that is 42% in 2010 and the remaining 30% in 2011.

**Jay Prakash Sinha:** Yes that is exactly what I am saying, around 42% is in 2010, which is out of 2800 Crore around 1000 Crore, assuming 7 months of working capital cycle, it is 700 Crore, deduct the debtors, which is the requirement, which is 3 to 4 months, which is 300 to 400 Crore, I am still left with 400 to 500 Crore of gap.

**Tapash Majumdar:** No, you do not just get debtors, you have got to deduct the entire working capitals right? You have to deduct current assets; which includes stock, debtors and advances and cash and W.I.P and then you come at the gap.

**Jay Prakash Sinha:** So, what kind of gap are we left with?

**Tapash Majumdar:** The gap to fund growth right now would be, let us say from a turnover of 800 to about 1000 Crore. We are at a debt level of 400 Crore right now and we are executing 800 crore, so another 200 Crore is what we have to fund. We may need funds of 10% or 15% more from our present debt level to fund this growth.

**Jay Prakash Sinha:** Okay that is quite comfortable.

**Tapash Majumdar:** That is right.

**Jay Prakash Sinha:** On the concentration risk, if I look at the order book, I see that Bihar constitutes around 46% or so.....

**G. S. Johar:** Okay, I think that is very interesting question. What you look at as our concentration risk, we look at as trying to add mass in an area. If we look at our track record in terms of delivery; in the past, we sort very sufficiently demonstrated that we are able to deliver in these areas. So as a policy when we get into a state, we try and get in as much work, so that you can reduce the cost of execution. And the fact is that my contracts under execution they are currently way ahead of all my peers, who are executing similar

projects in the area. In fact you might have read in the papers, a couple of days ago, that some of these contractors have had warnings from NHAI.

**Jay Prakash Sinha:** Okay, that is comforting. And we see that the fourth quarter bookings are quite high in comparison to the other three quarters, is that trend likely to be maintained?

**G. S. Johar:** Yes, this is a very seasonal industry. In Bihar I worked for 6 months and the period June to December has rain or wet soil, so it is very difficult to work while it is raining. When the soil is wet, you cannot do anything if you are below the main surface. Maximum business happens when the sun is out.

**Jay Prakash Sinha:** Okay, so the fourth quarter will normally be booked, last year also we saw the fourth quarter rising almost 80%?

**G. S. Johar:** You know this has been happening ever since the company was incorporated and will continue to happen. The last 6 months give 65% to 70% of the business.

**Jay Prakash Sinha:** Okay thanks sir, thanks a lot.

**Moderator:** Our next question is from the line of **Darshan Mehta** of **ET Now**, please go ahead.

**Darshan Mehta:** You said your order book was 2872 Crore, could you give me a break up in terms of verticals and also in terms of geography?

**G. S. Johar:** Yes roads and highways are 73% that is 21,073 million; water and sanitation is 395 million, buildings are 3420 millions, and railways are 3905 million. On the geographical mix, I have business of 46% in Bihar, which is 13,326, Punjab is 2712, Himachal is 2449, Haryana is 4684 that is worth 16% and Delhi is about 3%, 819 and Afghanistan is, 4803 million, which is about 17%. So, I have 83% business in India, 17% in Afghanistan. Out of these 83%, 46% is in Bihar and the rest is spread over Punjab, Himachal, Haryana, and Delhi.

**Darshan Mehta:** I just missed the guidance number; was it 800?

**G. S. Johar:** Yes it is 800 Crore.

**Darshan Mehta:** Do you have any shares that are pledged?

**G. S. Johar:** Yes, a couple of months ago, when there was some gap in our working capital requirement, we borrowed 10 Crore from Bank of Rajasthan and we pledged some shares. And as per the guidelines, we just made a declaration to the stock change of this pledge.

**Darshan Mehta:** But have you repaid it or it is still pledged?

**G. S. Johar:** No, the first installment is due for repayment about 8 months from now.

**Darshan Mehta:** Your interest costs have almost tripled your finance charges, have you taken up any debt in the recent past or in this quarter?

**G. S. Johar:** No, there is nothing that we have taken up in the recent past however; there would be a gap of about 25, 30 or may be say 50 odd Crore for the remaining 6 months, which we will take up as and when it is required.

**Darshan Mehta:** No, I was just wondering because your finance charges have almost tripled, can you give me some reasons why?

**G. S. Johar:** See, you are a growing company and you need to put in capital business and you would be aware that working capital is a great issue in the construction industry. And it affects us more because your spread is into more difficult areas. Your geographies are very different from each other, what I have in Afghanistan cannot be used in Bihar and what I have in Bihar it cannot be used in Punjab, so that entails slightly higher working capital and that needs to be funded. Here the challenge for us was to maintain our EBITDA margins and we are aware that, additional borrowing is affecting the PAT. But you know the choice was pretty clear that do you end out with a higher PAT and lower EBITDA or higher EBITDA and lower PAT.

**Darshan Mehta:** Okay that is about it.

**Moderator:** Our next question is from the line of **Naveen Jain of Reliance Equities**, please go ahead.

**Naveen Jain:** I have a question on this order that you have received from Dedicated Freight Corridor. Can you explain, what exactly is our role in the joint venture?

**G. S. Johar:** You know Naveen we work in the JV. We have the JV since 2001 and we primarily worked as one composite unit. The JV management comprises of promoters of both the companies, who decide what to bid, at what price to bid then the planning and the monitoring is done by this management team and they do the execution of the project, it is carried out by the top management of C&C as one composite unit.

**Naveen Jain:** But what exactly is the component of this order; what is appropriate?

**G. S. Johar:** The nature of work?

**Naveen Jain:** Nature of work yes

**G. S. Johar:** Yes this is primarily getting the ground ready for the tracks to be laid, you know.

**Naveen Jain:** Okay, so we are doing structural work?

**G. S. Johar:** Structure as well as roads, except doing bituminous stock, we are doing everything that brings the land ready for track laying.

**Naveen Jain:** Okay so that involves what 781 Crore, about how many kilometers are these?

**G. S. Johar:** 105 kilometers.

**Naveen Jain:** So, what kinds of opportunities we are seeing in this revenue segment, are there more orders coming from Dedicated Freight Corridor?

**G. S. Johar:** Yes in the next 6 months, there is 25,000 Crore opportunity. Yes and I believe only 2 projects have been awarded on this front.

**Naveen Jain:** Okay, one has gone to you and who has the other?

**G. S. Johar:** Soma has the other around 700 odd Crore.

**Naveen Jain:** Okay, so these 25,000 Crore are all from Dedicated Freight Corridor?

**G. S. Johar:** Yes they are

**Naveen Jain:** Okay would that involve signaling?

**G. S. Johar:** No, this particular order is without signaling. But I believe the next lot of orders will have signaling and there we need to have in place parties that specialize in this function, so that we can compositely bid for these jobs.

**Naveen Jain:** Okay, so who are the kinds of people who can do those kinds of work?

**G. S. Johar:** You know there would be Siemens, they are primarily foreign companies.

**Naveen Jain:** Okay also, I was just going through announcement, the capital employed has gone down at the end of FY08 it was about 587 Crore, it has gone down to 516 Crore, since our interest cost has grown obviously the business is growing, how come the capital employed has come down?

**Tapash Majumdar :** You know this is just as on that date, because there were lot of payments that we have received, so our both the debtors as well as creditors were paid off you know, so that is just a temporary phenomena as on that date.

**Naveen Jain:** Yes, but I believe that the net worth would not have come down and at the same time debt is increasing -

**Tapash Majumdar:** No, this is a feature that has happened as on 31<sup>st</sup> December

**Naveen Jain:** So, we have repaid some debt as compared to FY08?

**Tapash Majumdar:** No, the debt adjustment would have been made in terms of one party to the other, but basically there were creditor payoff and debtors balances coming down as of 31<sup>st</sup> December.

**Naveen Jain:** Sir, but that does not affect the capital employed, right because your debt would not have come down and the net worth obviously-?

**Tapash Majumdar:** Debt would have been; you know some debt would have been paid off as of 31<sup>st</sup> December.

**Naveen Jain :** Okay, so what was our debt level at the end of FY08?

**Tapash Majumdar:** At the end of FY08, you mean June?

**Naveen Jain:** Yes.

**Tapash Majumdar:** In June, debt level was about 270 Crore; right now it stands at 400 Crore.

**Naveen Jain:** So, it has gone up actually.

**Tapash Majumdar:** It has gone up over a period of time, yes.

**Naveen Jain:** There was a big advertisement from Bihar Public Works Department, I think it was for a road project, a couple of days back in the Business Standard. What is that project all about, have you seen that, I mean I am sure we would be interested since we have lot of work in Bihar?

**G. S. Johar:** You know my interest in Bihar is limited to projects that are funded by World Bank/ ADB.

**Naveen Jain:** Okay, so all the projects are funded by World Bank.

**G. S. Johar:** Yes, I as a policy do not look at any project that is funded by the state government for obvious reasons. However, if there is something that comes very lucrative that comes my way and in that overall

scheme of thing is very small, you know I will not stop at executing that but by and large, we will limit our major initiatives to funded, multinational funded projects.

**Naveen Jain:** So, I think you have received four orders from Bihar last quarters in the different segments, those are all World Bank funded?

**G. S. Johar:** Yes two World Bank, two ADB.

**Naveen Jain:** Okay and this Dedicated Freight Corridor how does the funding happen with this?

**G. S. Johar:** Well, this is a dedicated front with the railways.

**Naveen Jain:** Thank you sir!

**Moderator:** Our next question is from the line of **Devang Patel** of **Avendus Capital**, please go ahead.

**Devang Patel:** Sir, what was the highest debt you had in the last quarter you mentioned the end of quarter figure was 400 Crore?

**G. S. Johar:** The highest debt we have would have been nearly close to about 420-430.

**Devang Patel:** Sir, I just wanted some view on the outlook, now the way order backlog is right now you will easily have 40% growth next year, your debt equity is over onetime and you know it is roughly to 1.7 times end of next year. So, what kind of equity raising options are you looking at and timeline on that?

**G. S. Johar:** You know, if we look at the current situation, I think for the next 6 to 8 months, I do not see any opportunity and any equity raising. We will have to rely on debt for our working capital.

**Devang Patel:** Okay, sir and given the high debt equity, will you still try to get new orders and push that growth higher?

**G. S. Johar:** You know at least for the next 6 months, we would want to consolidate, maybe post June, we could start looking for business aggressively.

**Devang Patel:** So, you will go a little slower till then?

**G. S. Johar:** Slow is also a very relative term, we will bid for jobs, probably bid with higher margins and if we still get something, we will be very happy to execute it, maybe post June once things stabilize, we could look at bidding a little more aggressively.

**Devang Patel:** Okay, so when I look at segment revenues from overseas business, while in the half month there is a growth y-o-y and in the last quarter there is a decline, so has that to do with order backlog, or has it to do with some execution delays?

**G. S. Johar:** No, there are no execution delays, it is just that we got the Afghan Parliament order only recently and it takes about 3 months before we actually start any billing.

**Devang Patel:** So, it has to do with a lower order backlog?

**G. S. Johar:** Yes.

**Devang Patel:** Okay, sir you mentioned earlier that the price variation clauses were protecting your margin, so could you indicate what percentage of order backlog is on price variations?

**G. S. Johar:** Everything is on price variations, except the BOT order that we are executing for ourselves and that too with these current prices of steel and cement, we are more or less in line with what we have projected because I have no business that is without a price escalation. Of course, the Afghanistan business is without price escalation.

**Devang Patel:** You mentioned that promoters had pledged shares to fill the working capital gap in the company. Is that because the company is finding it difficult to raise working capital on its own?

**G. S. Johar:** No, it is just very temporary phenomena that happened under particular point of time and we just picked up 10 Crore, the amount is too small to actually signify any dearth of availability of funds and we could have actually paid it back, but we thought when we have this money, we will pay back only on its due date.

**Devang Patel:** Okay fine sir, thank you so much.

**Moderator:** Our next question is from the line of **Srinivas Rao** of **HDFC Mutual Fund**, please go ahead.

**Srinivas Rao:** I just wanted to know the status of the BOT road order from Jaiprakash Associates.

**G. S. Johar:** That is more or less on schedule; however there are small issues of some land availability, if it does not happen over the next three months that could add to some slowdown, but otherwise we are by and large on schedule.

**Srinivas Rao:** What are we expecting our total interest outgoing for the year to be?

**G. S. Johar:** Well, it should be in the range of 60-65 Crore.

**Srinivas Rao:** On the current order backlog; what kind of margins are we looking at?

**G. S. Johar:** We will maintain whatever EBITDA margins we have had in the past.

**Srinivas Rao:** Right, around 19%-20%?

**G. S. Johar:** Yes

**Srinivas Rao:** Okay what are we planning to do to take care of this interest outgo....

**G. S. Johar:** I think in the current situation, our choice was to lower business, lower EBITDA, lower PAT or the other choice was, borrow more, do your business, maintain your EBITDA but a lower PAT.

**Srinivas Rao:** What will be the interest cost now versus what it was in say October-November, are you seeing any change there?

**G. S. Johar:** No, I think the change goes down, it has become effective by about 1%, 1.5%, I think from last month onwards.

**Srinivas Rao:** So, for the same amount interest outgo for Jan-March quarter will be different than October-December quarter?

**G. S. Johar:** Very true!

**Srinivas Rao:** What would be the approximate percentage, does it vary or is it too early?

**G. S. Johar:** It maybe little early, but I do not see it more than maybe 5%, 7% or maximum 10%.

**Srinivas Rao:** Okay, right sir that is all from me.

**Moderator:** Our next question is from the line of **M. S. Arun** of **Capital Market**, please go ahead.

**M. S. Arun:** My questions pertains to the Dedicated Freight Corridor, you mentioned that the nature of work is getting the ground ready for the track laying, is it so?

**G. S. Johar:** Yes, correct!

**M. S. Arun:** It is a ground leveling work actually. What is a typical margin that the company can expect in these kinds of orders actually?

**G. S. Johar:** You know we usually work on an EBITDA about 20%, we would maintain the EBITDA here.

**M. S. Arun:** So, in future you have stated that signaling work will also be included, will our EBITDA margin be the same or would we have finalized a joint venture partner or construction partner for that on technical work?

**G. S. Johar:** There are lots of on going discussions, maybe it is early for me to get on to specifics and I believe the margins would be maintained at these levels.

**M. S. Arun:** Okay, thanks a lot sir.

**Moderator:** Our next question is a follow up question from the line of **Rohit Gupta** from **KR Choksey**, please go ahead.

**Rohit Gupta:** We wanted some clarification on the revenue front. Your order book as on September was 1484 Crore, new order received is 1381, so total order books would come to 2866, revenues booked over 164 Crore, so actually the order book as on date should be 2702 Crore, whereas it is reported as 2879 so there is a difference of 177 Crore?

**Tapash Majumdar:** There are adjustment that take place, there are escalation bills that keep coming and getting raised, claims being received, which we do not technically total up as orders in hand. During the course of the project there are lots of claims that are filed, which keep coming in, at that time we have to book it with the revenue. As a matter of abundant caution, we do not add that as our revenue or to our order book till it actually happens that is why, these marginal differences.

**Rohit Gupta:** Okay these are one off?

**Tapash Majumdar:** These are one off cases, but in every project these things would occur.

**G. S. Johar :** To clarify further there are variations, the quantity as per the BOQ and the quantity that you physically execute at the ground level may undergo a change, so that gets added to your billing. Similarly, there is an escalation, which is not included in my order book, there is no way of ascertaining that, that gets added and it could vary from anything from 2% to about 14%, 15% of the project cost. So, you know you will never be able to do a one-to-one tally on these numbers. And you also have the added thing of the dollar conversion.

**Rohit Gupta:** Yes, thank you.

**Moderator:** Our next question is from the line of **Karthik Ganesan** of **Crisil**, please go ahead.

**Karthik Ganesan:** My question is related to the Dedicated Freight Corridor order; since this is a kind of leveling work, what raw materials would you be use in it?

**G. S. Johar:** Well, it is sand, mud and cement.

**Karthik Ganesan:** Okay, but no bitumen as in roads?

**G. S. Johar:** Yes there would be some bitumen, because we are going to make a service road and as part of this contract a very small portion, but there is some bitumen.

**Karthik Ganesan:** What should be the cost per kilometer; could you give me a range?

**G. S. Johar:** It is very difficult, there are a whole lot of structures, not just roads, there are service roads, and it is 105 km and 781 Crore. Any sort of simple division, does not take me anywhere, you know it is just an average figure for the sake of discussion.

**Karthik Ganesan:** Okay and are there any prequalification in such orders?

**G. S. Johar:** No, they invited bids from eligible bidders and they have defined eligibility criteria.

**Karthik Ganesan:** Okay, so where does our company stand as far as eligibility is concerned?

**G. S. Johar:** We are fully eligible and that is how we have got the contract.

**Karthik Ganesan:** So, are there some scores like NHA calculates scores?

**G. S. Johar:** There are no scoring systems. you know like you should have technically done certain quality of work and we meet all those criteria and like you should have done so many cubic meters of cement works, so many tons of earth work.

**Karthik Ganesan:** Alright sir and so you gave the figure of around 25,000 Crore for DFC. How much of that would be the work that you are doing right now in this project?

**G. S. Johar:** More or less, you can add signaling to this, which would be about another 15%.

**Karthik Ganesan:** So, 25,000 Crore, plus 15% for signaling that would be the total DFC?

**G. S. Johar:** Yes

**Karthik Ganesan:** Alright sir thanks a lot sir.

**Moderator:** Our next question is from the line of **Devang Patel** of **Avendus Capital**, please go ahead.

**Devang Patel:** Sir, on the Freight Corridor Project, by when would you expect to start booking revenues?

**G. S. Johar:** We would start from next month onwards

**Devang Patel:** So, is the land acquisition and all under ground activities complete?

**G. S. Johar:** For the first 12 months work land acquisition is completed.

**Devang Patel:** And is this a 2 year project?

**G. S. Johar:** This is a 3 year project.

**Devang Patel:** Okay fine sir, thank you so much.

**Moderator:** Our next question is from the line of **Punit Chokhani** of **Enam Securities**, please go ahead.

**Punit Chokhani:** For the Afghanistan Parliament Project we have got of 635 Crore; considering that margins for these projects are little higher, what is the difference, how much higher are these projects, specifically?

**G. S. Johar:** You know EBITDA margins of projects in Afghanistan are in the region of about 35%.

**Punit Chokhani:** How do you bid for these projects, are there any qualifications?

**G. S. Johar:** Yes, there are qualifications and most of these projects are on International Competitive Bidding and however, we carry the advantage of the first mover, where we have been in Afghanistan now for 5 years, we have done about 1200 km of road projects, I have a lot of equipment line there, I have a lot of manpower stationed there and you know we had about 1200 people working out of Afghanistan, transferred from India.

**Punit Chokhani:** If I were to grade a company who would come in after C&C Constructions, who is quite big in terms of constructions in Afghanistan as an Indian Company, who would it be?

**G. S. Johar:** Nobody!

**Punit Chokhani:** So, as of now we are the only predominant construction company based in India operating?

**G. S. Johar:** There is KEC that does power transmission.

**Punit Chokhani:** Right, why do other companies not want to go there? C&C has been doing this work for some time and as you said, we have a lot of stuff already deployed in Afghanistan, why do not other people want to do it considering it is 35% margin business?

**G. S. Johar :** Let me explain this, there is so much business in India that companies that do not want to take risk or do not have the USP of working in environments that are challenging, would find it very difficult. And you have a choice and let me also add here, at the time we went to Afghanistan, the Indian market was very sluggish, we felt that if the company had to grow, then it had to be outside India and we chose Afghanistan and we built up a certain expertise or we actually had the expertise in working in challenging geographies and we reestablished that. For anybody else to go there now and start all over again will not be easy

**Punit Chokhani:** Yes sir, I completely agree in terms of not being easy

**G. S. Johar:** We have been there 5 years now, so you really do not know, how many more years the market would last there, all thanks to the American government, as long as they keep funding the development of Afghanistan, there is a market.

**Punit Chokhani:** So, what you are saying is there is not too much visibility over there as of now, you do not know what is going to happen in terms of construction activity going forward?

**G. S. Johar:** No, let me rephrase, the latest American initiative of strengthening the development process in Afghanistan is going to talk on more business, therefore somebody else to go there and what may happen, for us it is already happened, I think over there, we have done about \$250 million worth of work in Afghanistan over the last five years.

**Punit Chokhani:** Yes right, but what I am just trying to get is or so basically, how does the payment system work for this project, who pays us and how do we get the payments?

**G. S. Johar:** I get the payment from the US into my account in India and whatever money is required for operating and major payments are made from India and whatever you know operational expenses are required at the site that is paid from Afghanistan from the remittances that we make from India into Afghanistan.

**Punit Chokhani:** Okay, I agree completely to what you are saying but considering that to an extent compared to what the scenario is at this point in time, everybody has got a visibility of order books in this country also, I agree to that. But considering that execution is definitely slowing down throughout India can't Afghanistan emerge as an avenue in terms the money coming in which is guaranteed to larger extent as compare to your projects over here?

**G. S. Johar:** Let me share with you the experience of starting work in Afghanistan. When we started work, we were told by the Americans within so many days you will need to get your equipment in place? And I sent my first piece of equipment through Pakistan, it took 16 weeks and the Americans do not have patience. I hired 7 plane loads of equipments and moved equipment from Amritsar to Delhi into Kabul. I hired a ship for 12 months on a time charter and I moved you know that was a sort of logistics nightmare that we went through to move equipment into Afghanistan.

**Punit Chokhani:** I mean, what you are saying it is not easy for a new player to set up base all together?

**G. S. Johar:** Exactly, you know if I was to do it now, I would really think about it.

**Punit Chokhani:** Okay. Is there any other worth place eyeing at this point and time, besides Afghanistan?

**G. S. Johar:** Yes various geographies, in the African continent, we have bid for jobs, well the policy here is when I am going to bid for job it will be at rates that are acceptable to me.

**Punit Chokhani:** Right absolutely.

**G. S. Johar:** Once you get the first job then we start developing a strategy for that country. However, we do our homework in terms of making an assessment as to the market size competition, in the past that I bid for jobs in Ethiopia and Sudan, well just I have not been successful there, so but we will go along, you know we would always keep one or two geographies in mind and depending on what the situation is in Afghanistan, we decide whether we need to get a aggressive or quote at our own pace and you take on what comes up at your rates.

**Punit Chokhani:** You said the Afghanistan project is an International Competitive Bid right?

**G. S. Johar:** Right!

**Punit Chokhani:** So, who are the other players who bid for such projects?

**G. S. Johar:** Are you referring to the road sector?

**Punit Chokhani:** Yes, I need it specifically for the 635 Crore.

**G. S. Johar:** That was limited to contractors from India.

**Punit Chokhani:** Okay and for the road projects, who are normally our competitors?

**G. S. Johar:** There are four contractors, there is one from China, one from Korea, out of these four contractors two have gone back and Chinese have practiced on.

**Punit Chokhani:** Could you name the contractors?

**G. S. Johar:** Those contractors, those names will not sound very familiar, but maybe you know before this conference is out, if you re-put that question, I will get those names.

**Punit Chokhani:** Alright

**Moderator:** Our next question is from the line of **Kaustub Roy** of **Reuters**, please go ahead.

**Kaustub Roy:** Mr. Johar, there is some confusion with the order book, as of December what is your total order book size?

**G. S. Johar:** It is 2879 Crore.

**Kaustub Roy:** You said no equity in the next 6 months, but do you have any fundraising on the debt side as well?

**G. S. Johar:** Yes I will say that, we would require about 50 odd Crore, over the next 6 months.

**Kaustub Roy:** And how do you plan to raise it?

**G. S. Johar:** No, like it will be partly by working capital enhancement and maybe some equipment financing.

**Kaustub Roy:** Okay sir thank you.

**Moderator:** Our next question is a follow up question from **M. S. Arun** of **Capital Market**, please go ahead.

**M. S. Arun:** My question is on water and sanitation, when would we see a ramp up in order booking in the new vertical, what is the capability you built up in the company segment?

**Tapash Majumdar:** Yes you know water has just about started. We have got our first order from the Jabalpur Municipality; we have quoted for various jobs. In fact, we were L1 on one 300 Crore project with the authorities in Gujarat and they recalled that business and the contract was not awarded to anybody. So, I would expect that during the next 6 to 8 months, we would see some inflow of slightly larger orders in this sector.

**M. S. Arun:** What is the ticket size the company is looking in the order?

**Tapash Majumdar:** It would be anything over 100 Crore.

**M. S. Arun:** Okay, thanks so much.

**Moderator:** Our next question is from the line of **Naveen Jain** of **Reliance Equities**, please go ahead.

**Naveen Jain:** You mentioned on the DFC project that you are expecting EBITDA margins of around plus 20% is this because of the project is in Bihar?

**G. S. Johar:** That is one of the reasons.

**Naveen Jain:** Who are the other bidders for this project?

**G. S. Johar:** They were limited to the top line two or three construction companies, I think it was Gammon, Soma and us.

**Naveen Jain:** Okay only three?

**G. S. Johar:** Yes

**Naveen Jain:** Okay so going forward, as we bid for more DFC projects, now are we looking at similar margins, or an equivalent?

**G. S. Johar:** I am sure, as we go along there will be some reduction in margins, as competition makes up and maybe 2% or 3% lower.

**Naveen Jain:** Okay thank you sir.

**G. S. Johar:** As someone wanted information on the Turkish contractors, the names are Gulshan, Chikunova, and Colnett.

**Moderator:** Our next question is from the line of **Abhinav Bhandari** of **PINC Research**, please go ahead.

**Abhinav Bhandari:** Apart from this order book position of 2879 Crore, any other orders are in which we are L1 or which are under bidding?

**G. S. Johar:** Yes, we have about 500 Crore of orders where we are L1, where the awards yet to come in and there is another 1000 Crore of order that are under bid.

**Abhinav Bhandari:** And these again would be primarily under what side; would it be road project?

**G. S. Johar:** Yes

**Abhinav Bhandari:** In the current order book what would be the mix in terms of government versus private sector order?

**G. S. Johar:** See, if you were to treat job that we have from JP, is a BOT project that is about 19% and everything else is government.

**Abhinav Bhandari:** Sir, what would be the average execution period of this order book?

**G. S. Johar:** We would look at 2.5 years.

**Abhinav Bhandari:** Okay and apart from the JP order are there any other delays which could be expected?

**G. S. Johar:** No there are not.

**Abhinav Bhandari:** You gave revenue guidance of 800 Crore for the full year and you expect EBITDA margins to more or less to stabilize around the last year. PAT margins or any guidance on that?

**G. S. Johar:** You know the PAT margins would definitely come down keeping interest in mind we would look at around 6% to 7%.

**Abhinav Bhandari:** Okay and what would be your current total debt as on date?

**G. S. Johar:** It would be 400 Crore

**Abhinav Bhandari:** How much of this would be your working capital?

**G. S. Johar:** Working capital would be 212 Crore.

**Abhinav Bhandari:** What kind of interest rate are we paying on the mobilization advance as of now?

**G. S. Johar:** For mobilization advance we pay either 10%, or in some cases 5%.

**Abhinav Bhandari:** Okay, are we paying less on the government orders?

**G. S. Johar:** No see, as far as the non-government orders are concerned there is no advance, there is no interest on mobilization. The mobilization advance from NHA that is from the World Bank headed projects that is 10% and from the DFC it is 5%.

**Abhinav Bhandari:** And what would be that position sir, mobilization advance as on date?

**G. S. Johar:** Mobilization advance would be about 70 odd Crore.

**Abhinav Bhandari:** Okay and sir since we have bagged couple of big projects in Afghanistan in the last 6 months, is there any additional incremental to the gross block next year in Afghanistan?

**G. S. Johar:** As a policy, we are not looking at any substantial increase in gross block in the Afghanistan projects.

**Abhinav Bhandari:** In domestic operations next year would capex be about 40 to 50 odd Crore?

**G. S. Johar:** See, I think whatever equipment we require now, most of this would be acquired before this financial year end. This equipment would be sufficient to carry out my current order book.

**Abhinav Bhandari:** What is our cash and bank balance position as on date?

**Tapash Majumdar:** 83 Crore is the cash bank balance and debt as we know is 400 Crore.

**Abhinav Bhandari:** In BOT what expenditure has been incurred by the joint entity till December?

**G. S. Johar:** Well, about 160 Crore.

**Abhinav Bhandari:** Does this include debt as well; or which portion is it?

**G. S. Johar:** No this is total.

**Abhinav Bhandari:** What is the total equity spent till date?

**G. S. Johar:** 80 Crore

**Abhinav Bhandari:** This is joint; both you and BSCPL.

**G. S. Johar:** Yes, I contributed 49% of this entity.

**Abhinav Bhandari:** Right sir that would be it.

**Moderator:** Ladies and gentlemen that was the last question; I would like to hand the conference over to Mr. Johar for closing comments.

**G. S. Johar:** Thank you gentlemen, it has been very interesting, reacting to your questions. And coming to the final remarks, I think what we need to look at is what is the way forward. We are in a sphere, where business growth opportunities are very large; the challenge is how to fund this growth and how to execute the project. And I can say with a lot of confidence that we are right on top as far as execution is concerned, when we talk of funds, we have chosen the route of increasing our debt, in the current market, we felt that was the best alternative and keeping in mind the growth opportunities available, we feel that in the next two

years, we should be able to stabilize our debt, get the company to grow at a very healthy rate and maintain our margins, thank you.

**Moderator:** Thank you very much gentlemen of the management and Mr. Rashid. Ladies and gentlemen on behalf of C&C Constructions that concludes this afternoon's conference call thank you for joining us and you may now disconnect your lines, thank you.