ITD Cementation (India)

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Presentation Session

Moderator: Good evening ladies and gentlemen, Welcome to the CY16 conference call of ITD Cementation Limited hosted by HDFC Securities Limited. For the duration of this call, all participant lines will be in the listen-only mode. Later, we will conduct a question and answer session. Please note this conference is recorded. I would now like to hand over the floor to Mr. Parikshit Kandpal of HDFC Securities. Over to you sir.

Parikshit Kandpal: Thank you Moumita. On behalf of HDFC Securities, I would like to thank the management of ITD for giving this opportunity to host the call. Today, we have with us Mr. Adun Saraban who is the Managing Director of the company and Mr. S. Ramnath, who is the CFO. Without further delay, I would like to hand over the floor to Mr. Ramnath to present the results. Over to you sir.

S. Ramnath: Let me take all the participants through the summary of results for this quarter and for the full year ended December ’15. In the quarter, our total income from operations have been Rs 1,063 crores and we have made a profit before finance costs and exceptional items of Rs 648.3 crores, EBITDA of Rs 722.3 crores, profit before tax of Rs 33.25 crores and a profit after tax of Rs 30.06 crores, if I have to round off and for the full year we made, our overall total income from operations was Rs 3071 crores. We have made a profit before finance costs and exceptional items of Rs 177 crores an EBITDA of Rs 213.75 crores, and because of exceptional items, that is as we have explained earlier, we wrote off consequent to a settlement with NHAI, Rs 123.97 crores, and after that we have had a loss before tax of Rs 84.58 crores, but because of tax credit through deferred tax assets, (not clear) of Rs 25.28 crores, we are left with an overall loss of Rs 59.31 crores. Now, this is as far as the operational aspects of the company are concerned.

Coming to the debt profile, the consolidated debt as of December stood at Rs 600.71 crores as against Rs 765.32 crores in December ’14, and the standalone debt stood at Rs 488.36 crores as against Rs 670.78 crores in December ’14. So mainly the operational improvements have happened on the top line as well as on the profit before tax front, except for that exceptional item, I think we have done quite well and this exceptional item we had explained earlier to the investors, that in December ’14 itself that we are likely to go ahead with a settlement with NHAI and that happened in March and we wrote off that amount, and this has been reflected in the results for December ’15.

Now, coming to the order book position, I would like to take people through, we have a closing order book of Rs 5204 crores, this against Rs 4762 crores that we started the year with. And this order book is well diversified with about 53% in Marines and transport and MRTS are around, so I will read the order book, we have a closing order book of Rs 5204 crores at the end of December ’15 and in January ’15 we started the year with an order book of Rs 4762 crores. That shows an improvement in the closing of work-in-hand by about 10%. And we were also having contracts for about Rs 3000 crores where we are in L1 position, where we expect to convert these into awards in the first quarter of this year barring unforeseen circumstances. And this order book is fairly well-diversified with about 53% of the order book represented by Marine, that is port contracts and about MRTS, urban, infra, and MRT of about 24%,(audio break) 10%, and other transport….bridges projects that we are doing of about 21% and buildings represent…. the percentage here is about 5%. And of the total work-in-hand, in terms of segmentation, in terms of government and private, 30.3% of our order book is from government, 38.4% is from private, and 33.4% from PSUs.

Sorry, I would read again. The government contracts are about 27%, private is about 53%, and 20% is from PSUs. The private 53% includes the balance work of about Rs 1200 crores from BMCT project, which is classified in private, although the BMCT, Bharat Mumbai Container Terminal customer belongs to PSA, which is the Port of Singapore Government authority in Singapore. So that is my summary. I would be happy to answer questions from investors.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. We request all participants to use the handset while asking questions and restrict yourselves to two questions per participant in order to enable everyone to ask questions.

Sir, our first question comes from Mr. Abhijith Bora from Sundaram Mutual Fund. Please go ahead sir.

Abhijith Bora: Thank you for taking my questions. Sir, my first question is could you please give us an update on the Mumbai metro order, when could you expect it to get converted to LOA and when can you start deploying the equipment and the revenue recognition.

S. Ramnath: As of today, all of us are waiting for that award to be coming because we are also going by the announcements made by the metro authorities that they want to award by March. So that is also the indication that we have. So, it appears to us from whatever we have gathered internally by talking to them, that all the information that they wanted from all the bidders are in place and they are now in a process of awards, maybe they are going over their internal formalities of getting approvals. That is the best we can say at the moment. Now to answer the further question, in case we get the award by March, we would be happy to start work, but substantial work, that is the real tunneling work can start only after about nine months when the TBMs arrive here and are installed at the place.

Adun Saraban: Yes. I would like to add that since this is an EPC contract, so the first six months is mainly for the design work. So that is, the real or physical work will be starting earliest only in the Q4 of this year.

Abhijith Bora: Sir, also an update on how far you have been successful in procuring the TBM on the lease model, is that work also in process?

S. Ramnath: Yeah, that is very much in process and we are very confident we should be able to conclude that if we get the awards.

Abhijith Bora: Sure sir, one clarification is, in the L1 of 3000 crores you have included Mumbai metro order.

S. Ramnath: That is correct.

Abhijith Bora: Sure, thank you. I will get back into queue sir.

S. Ramnath: Thank you Abhijith.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, we have the next question from Mr. Adhidev Chattopadhyay from Elara Capital, please go ahead sir.

Adhidev Chattopadhyay: Yes sir, congratulations on a good set of numbers. So, I had a few questions sir. Firstly sir, just clarify what is the consolidated net debt on the company's books, another followup to that, what is your outlook on the interest cost for the next year?

S. Ramnath: I think the clarity was not there because, I think, phone call, but our consolidated debt as of December stands at Rs 600.74 crores and the opening consolidated debt was Rs 765.32 crores, and the standalone debt is Rs 488.36 crores, and the beginning debt, that is December '14 it was Rs 670.78 crores. As far as the interest cost is concerned, at the beginning of the year our weighted average interest cost was about 13.1%, now in December '15, it is at about 11.9%.

Adhidev Chattopadhyay: Okay, so just for the next year, like, where do you see on debt levels and some guidance on overall, how do you see debt levels trending and interest cost quarterly run rate of around Rs 30, Rs 31 crores, will it come down further or do you expect it to remain at these levels?

S. Ramnath: Our own internal expectations on the debt are to maintain the debt around this Rs 500 crore level, at a standalone basis. And the consolidated debt is based, you know, Adhidev is on the JV projects that are being executed. So it is my belief, by end of this year, when these JV projects are virtually completed, this debt will be repaid. I do not expect the overall debt to increase beyond Rs 500 crores at the standalone level. But the debt at the JV level, you know, is dependent on the projects that we do through JVs. Now Mumbai Metro could be a project, if we are awarded, there will be some debt for working to execute that project. That is floating, it depends on the order. But at the standalone level, I can say that we do not expect the debt to go up beyond Rs 500, we should be able to maintain it mainly because most of the orders that we are focusing upon, are on positive cash basis and secondly our operating cash flows should be improving in '16.

Adhidev Chattopadhyay: Okay. Sir, in the next question also, on our remaining order book excluding Metro now, sir what is the likelihood of the Udangudi power plant in Tuticorin that is the port project? And sir, I believe, there has been some re scoping of two projects, sir could you also elaborate on that?

S. Ramnath: Yeah. I think you were referring to the power plant in Tangenco, Udangudi, where we are L1. Now at this point in time, there is some lack of clarity on that, because I believe, this is our belief in the company, that our work being supporting work to the main power plant that they have to award yet to anybody, BHEL, or any other power contracting company, so possibly our award will happen along with that or soon after that. So that is one of the reasons we feel it is taking some time. But that we are told recently could happen by March. But here again we cannot say with confirmation when it will happen. These are government bodies, they have to take a lot of approvals and they have to, you know, the power plant earlier was held up in litigation in hydro, which got cleared. So we believe the road has been cleared for Tangenco to award the power plant. So along with that or soon after that we expect this also to take place. Coming to the other question, on the re scoping, you were saying, there are two projects, which we are already doing, one is the underground Metro in the JV at Kolkata, there our additional scope of work is expected to contribute at the JV level about Rs 700 crores worth of additional work, and our share being 49% will be about Rs 350 crores, but that we are awaiting formal confirmation of the price, although the technicalities on that has been agreed. And as far as the other one is concerned, where we expect increased price variation because of scope increase, is from BMCT JNP (not clear) PSA, that we expect may be 150, 180 crores would be the additional value of the additional scope, but that scope is already agreed. The pricing has to come, the award has to come. But the fact that that work has to be done by us is already agreed by the customer.

Adhidev Chattopadhyay: So then apart from this, any guidance you can give on what are the order inflows you are targeting this year….for the full year?

S. Ramnath: See, as a company, we have our target of about, you know, I don't want to give guidance or call it any forward-looking statement, but as a company we have target of orders of over Rs 5400 odd crores. Based on the pipeline of work we are doing, we feel we have a reasonable chance of securing this year. But in this quarter itself, if some of these contracts that we have talked about gets concluded, then it could be pretty good, the order inflow this year we expect to be…we are very optimistic about this year's order flow.

Adhidev Chattopadhyay: Okay. Okay fine sir, thanks a lot, I will come back in the queue if I have some more.

Moderator: Thank you sir. Sir, the next question comes from Mr. Abhijith Bora from Sundaram Mutual Fund, please go ahead sir.

Abhijith Bora: Sir, my question is on margins, the recent awards which you have been declaring in the order book, would this be able to take up the margins of standalone entity this year and next year, won't it be improving substantially, because for two, three quarters we are seeing margins are stabilized, but we were hoping you would go back to your earlier margins, which you used to do in good time. So how is it looking like? And can we see it quarter-on-quarter or will it take some more time sir, because you might be having some slow moving orders or earlier orders of higher cost.

S. Ramnath: We expect all the new orders that we are getting are at good margins. The present EBITDA margins what we have reported, around 7%, are not representative of the orders that we have booked in the recent times, they are much higher. But what happens is, those older orders move first and these orders will start getting used in an organized way going forward, because these orders typically have an execution time cycle between two to three years. And projects like Mumbai Metro are longer than that, four years, and Udangudi is about 30 months. So these orders are all…..will definitely be at higher margins, but the older jobs, some of the legacy contracts, which are about 10% in our order book, they will be moving out first and that is why the margins might be muted in the first couple of quarters, but on an overall basis this year, we expect margins will be higher.

Abhijith Bora: It will be higher even than the first half of CY15 sir? I think CY15 you reported 7, 7-1/2% EBITDA margin.

S. Ramnath: It should be higher, I don't want to go quarter-on-quarter Abhijith, in our industry it is difficult, because some projects move earlier, some projects later. The execution is not identical in all the quarters. So, I would think, on an overall basis this year, our margins will be…

Abhijith Bora: And sir, in terms of order pipeline which you indicated, these will be in which segment sir, whether it is Marine, whether it is Metro or tunnels, which segment is looking attractive at the current juncture?

S. Ramnath: We are pursuing projects across many segments, but just to tell you, orders worth about Rs 600 crores have already been received so far this year, Jan and Feb. Out of that, about Rs 396 crores is in the Marine segment, and about Rs 200 odd crores is in the industrial, that is building segment, and Rs 55 odd crores is in specialist works. So these are the, so that's how the works, naturally there is a higher content of port work presently in the order book. Going forward, I think, you will see orders flowing in from other segments also, like roads and bridges, and we are also bidding for some MRT projects, both Mumbai Metro will be an MRT segment, we are also bidding for other tenders in Lucknow, Ahmedabad, and as and when they come up, Mumbai also has got elevated, which our design and execution team is looking at as an opportunity. We are also looking at some projects in Noida in the bridges, flyover segment, so these are all projects that we are looking at. We are also anticipating some tenders to come in the airport segment, which may come. So far there have not been any airports announced by government, which I think will happen this year sometime. So, we will be seeing bidding and maybe even hopefully work being secured in some of the other areas other than Marine and MRT also.

Abhijith Bora: Yes sir. Sir, one final question from my side, will be Marine segment orders have lower working capital intensity compared to other segments or it is not that way?

S. Ramnath: No, I wouldn't say only Marine, there are others also, buildings and others, that the intensity is lower, but what happens that is because of the various ways in which these projects are executed. Naturally Marine, industrial are some of the segments that have a lower working capital intensity than MRT, elevated, and other tunneling projects, where your investment capital is up front and payments come later. So there is always a working capital involvement initially before you achieve reasonable progress.

Abhijith Bora: So can the working capital further improve sir, or can we expect it to stabilize at current levels, receivable days and inventory of working capital.

S. Ramnath: In number of days it has already improved to about 50 days.

Abhijith Bora: Yeah, will it stabilize at these levels?

S. Ramnath: Yeah, I would think so, I would think so. It is not likely to go up substantially because we expect some of these older receivables, which are sitting there, to be collected gradually. Some of these are related to the some private customers who are having some difficulties today.

Abhijith Bora: Sure sir. Thanks.

Moderator: Thank you sir. The next question comes from Mr. Nilesh Bhaiya from Yes Securities, please go ahead sir.

Nilesh Bhaiya: Thank you for taking my question. Sir, congratulations on a very good set of numbers. Couple of questions, sir, this is one of the best quarters in terms of execution, like I see Rs 1000 crores of execution in one quarter, but still the EBITDA margin is at 6.2% only, I mean, quarterly it has not increased, so is there any exceptional item, exceptional cost that we have incurred?

S. Ramnath: I would not call it exceptional, what happens is, when you go through on a quarter-on-quarter basis, all the costs, when we do analysis of different projects, in some projects where we do more work with low margins or even some projects where we are having execution challenges, margins are reviewed and some cost increases would be taken into account. So, although the margins appear to be muted, there are some projects where we revised the margins downwards and that has come in through in this quarter. And it has had an impact over the past working also when the margins get revised on those projects. So overall margins will improve on a yearly basis, quarter-on-quarter I wouldn't say. If you were to look at on an overall basis, for example, 12 months this year, our EBITDA margins are about 7%, which were about 6.3% last year. So one should look at on an overall basis.

Nilesh Bhaiya: Okay sir. And can you quantify the slow moving orders, how much is that in terms of percentage of order book of absolute number?

S. Ramnath: See, I had explained, out of Rs 5204 crores, about 10%.

Nilesh Bhaiya: Okay. And how was the execution of the JNPT, how much we have booked in the current year?

S. Ramnath: Last year we have done about Rs 950 odd crores of revenues in JNPT.

Nilesh Bhaiya: And this year also it will be at this level?

S. Ramnath: That represents about 40% of the order value, now that is the older order value, the order value is also likely to go up, yes.

Nilesh Bhaiya: Okay. And this year also the execution will be in a similar range?

S. Ramnath: It should be similar, slightly lower possibly, may be about Rs 800 to Rs 900 crores we are targeting, I mean, that is what we can say today. Because the work, some of that work happens faster, some of the work is more qualitative, some are more quantitative. So, revenue moves that way, but I would think that it would be 35-40% of that further work will be done this year.

Nilesh Bhaiya: Okay sir, thanks a lot and all the best for the future.

S. Ramnath: Thank you Nilesh.

Moderator: Thank you sir. Sir, we have the next question from Mr. Alok Deora from India Infoline, please go ahead sir.

Alok Deora: Good evening. Congratulations on a good set of numbers. I just had a few clarifications required for the Mumbai Metro project where actually there were talks that MMRCA had actually overestimated the cost and they might ask the bidders to reduce the cost and that might have some implication on the margins. So how are you working with the same Rs 1200 crore number or is that likely to come down slightly?

S. Ramnath: No, it won't, our MD will answer this question.

Adun Saraban: See, actually there is, from the press, that is okay, most likely it is over the budget, the principal approval from the JICA that has to come down based on the port reduction. Actually whatever reduction we have given to the client is based on only the scope reduction. Whatever margin remains the same.

Alok Deora: Okay. So the value also might have slightly come down or is it still Rs 1200 crores?

Adun Saraban: Before reduction, our package is about Rs 301 crores, that is, that will come under Rs 2830 crores.

Alok Deora: Okay. So that the Rs 3000 crore has come down to Rs 2830, is it?

S. Ramnath: Yeah Rs 2850 crores or something like that, I would say approximately about 4% - 5% is the reduction, but that is only because as Mr. Adun said, very rightly because of change in the scope and the payment terms, better relaxed payment terms, and other things and things like that.

Alok Deora: So the margins which we were initially targeting from this project would be largely similar.

S. Ramnath: No, I mean, our intention is never to reduce prices or to lose margins and take projects at any price, so that is not…

Alok Deora: Yeah, so the value of the margins has not changed, we would still be able to make that kind of margins.

Adun Saraban: Yeah, yeah.

Alok Deora: Okay. Sir, just one thing, so now the incase of this project, now the meeting with the bidders and everything has already happened, so now the ball is in their court and now there is nothing from your side you need to do, is that understanding correct?

Adun Saraban: Yes, correct.

Alok Deora: Okay. Just one last question, we had these receivables which we have settled with NHAI, which is a large chunk of the receivables which was stuck under litigation, but there was, I believe, some other receivable also which is pending. So what is the status on that?

S. Ramnath: No, no. Let me explain. We have made, in March '15 we have written off the entire loss pursuant to the settlement, nothing remains to be settled with NHAI. (Not clear) the amount to be received from the court, that has also come now. So as far as NHAI is concerned, that chapter is completed.

Alok Deora: No, I was talking about the other irrigation project.

S. Ramnath: Irrigation, Andhra. Now that, about Rs 100 crores is in litigation, and in two irrigation projects, one is in Telangana today, the other one is in Andhra, the larger was in Telangana, exposure about Rs 73 crores and about Rs 27 or Rs 28 crore, which is in Andhra Pradesh. Out of this Rs 73 crores we have also initiated a dialogue with the government, it may take a little bit of time, but we are fairly confident that we may be able to settle this larger one first, may be in three to six months. And we may not have a major write down in that. That is our confidence. We have initiated a dialogue and so far the response has been reasonably positive.

Alok Deora: Okay. Alright, that's all from my side, thank you very much.

S. Ramnath: Yeah, thank you.

Moderator: Thank you sir. Sir, we have the next question from Mr. Vibhor Singhal from Phillip Capital, please go ahead sir.

Vibhor Singhal: Good evening sir. Thanks for taking my question and congratulations on sound set of numbers for Q4.

S. Ramnath: Thank you Vibhor.

Vibhor Singhal: Sir just wanted to understand a bit on the Mumbai Metro thing again, I mean, sorry to dwell again on that. So, you mean, that we will still get the authorities to get their acts together and award this project by March. What do you see is the impact of let's say the monsoon on that project? So, do we need to do some sort of, some amount of work before the monsoon starts, so that we can better carry out our execution during that monsoon period itself or is it that if we miss out on that, then we will only be able to start after monsoons?

Adun Saraban: This is EPC contract, so generally the EPC contract will take initial three months for that, you will see that work will start in March, so that is anyway we will pass through the monsoon, so the physical work is going to take off in late after monsoon. So that I don't see any problem not only in (not clear) works, like a factory setup, we feel that it is not a problem with monsoon.

Vibhor Singhal: Okay, so even if we are delayed by a couple of months, it is not that we will have to have a deadline for monsoon.

Adun Saraban: No, no. For first monsoon, no.

S. Ramnath: No, but what will happen is, if it is coming in March, Vibhor, if this order is awarded in March, we may be able to get some revenue in the last quarter of this year. If it is delayed, there will be no revenue this year; it will push to '17.

Vibhor Singhal: Okay. Right, right. So, for the first six months afterwards you don't expect any revenues, the first revenue will come in only after six months, so if it is delayed…

S. Ramnath: Yeah, six, seven is the minimum, because our TBM delivery itself is six to seven months, it may take one or two months to get installed.

Adun Saraban: Must be a small revenue from the design works and factory set up I think.

Vibhor Singhal: Fair enough. And sir, how soon can we start execution on the Udangudi Power Plant project, let's say if it is awarded in March, April, May, whatever timeline we take, how soon can we start after it is awarded? So I am just trying to…

S. Ramnath: That is a typical Marine work, it can start promptly, there is no hold up there. There are no TBMs and all that involved. Marine work starts promptly, immediately we are able to mobilize very quickly. So that is a typical Marine work, it will start fast, that is one thing. Second thing is it is in Tuticorin, east coast of India, so you don't have the monsoon issues and all that on the southwest monsoon issues there.

Vibhor Singhal: Okay. So basically if that project is awarded in let's say May or June also, then also we can have at least six months of execution on that project.

S. Ramnath: Yes.

Vibhor Singhal: Okay. Fair enough sir. Sir, but considering that right now we are, we don't have much clarity on the Mumbai Metro III as well as the Udangudi Power Plant, what is the kind of top line that we are looking at for CY16 in terms of execution for the next year.

S. Ramnath: See, in our budget for this year, we have made the budget it is not dependent on only Mumbai Metro. There are jobs that we have bid across the segments that we are in. So, if one order misses, then the other one comes in. If Mumbai Metro also would not have contributed very great to revenue this year, as I said, so there are, we already have in our budgeting; we don't make budgets based on only one or two jobs. It is based on many jobs we bid, based on the success factor we apply, and then based on that we build our revenue model for the year. So, I think it will not make a major difference, whether we do not receive the order or it is delayed unduly. So I don't think that will make a major difference to this year. Yes, going forward, it would be a good work to have in hand, going forward, yes.

Vibhor Singhal: Okay. So, is there a number that you can probably provide us as to the kind of top line that you are looking at for next year?

S. Ramnath: About 15% to 20% growth is possible.

Vibhor Singhal: Irrespective of whether we get Mumbai Metro order or not, right?

S. Ramnath: If Mumbai Metro comes, it may be marginally higher end. 15% growth is possible, between Rs 3335 to Rs 3536 crores, in that range.

Vibhor Singhal: Okay, fair enough sir. Thanks a lot for taking my questions.

Moderator: Thank you sir. Sir, we have the next question from Mr. Dhruv Bhatia from AUM Advisors, please go ahead sir.

Dhruv Bhatia: Hi sir. Congratulations on a good set of numbers. Sir, could you help us with what the CAPEX plans would be for the next two years?

S. Ramnath: See, we have two types of CAPEX plans, one is your normal CAPEX to replenish and refurbish our existing plant and equipment and our capacities. The other one is project-specific, like Mumbai Metro you get or Udangudi you get, these are one of large projects. So, our CAPEX plan, on a normal basis, normalized basis, other than for project-specific, large ticket orders, is about Rs 20 to Rs 25 crores and not more than that, it is normally never more than that, because we want to replenish our equipment, for example, cranes, excavators, and such of those things, which are mainly to facilitate execution at our project sites.

Dhruv Bhatia: Right. But if you add on the execution say for the Mumbai Metro and Udangudi.

S. Ramnath: Yeah, Mumbai Metro is being a separate project through a JV; it is going to be executed in partnership with our other partners, CEC and Tata Projects. For that the JV will be required to invest in plant and equipment, whatever happens. But even in Mumbai Metro, the major equipment, that is TBMs, Tunnel Boring Machines, are planned through a lease arrangement with a NBFC and that is already in principle agreed by them. So we don't plan to invest on our own. So that through the lease arrangement that payment for the plant will be paid through the project cash flows.

Dhruv Bhatia: Sir second was that you had earlier mentioned one thing of getting into housing projects. So if you could just elaborate on any status update and whether….what is the plans on this?

S. Ramnath: Actually not our getting into, what happened is that there are governments, like Telangana government and other governments who have plans to take up mass housing projects for the economically weaker sections. So, in particular, we had had discussions earlier with the Telangana government and we had showed them ITD's projects that they have executed in the mass housing area in Thailand and a delegation based on our presentation to the government in Telangana, a delegation from the Telangana government, about four people, went and visited and took stock and visited the sites and the projects that ITD has already executed, our parent company. And they were very impressed with that. So they have drawn up some long term plans to execute similar projects in Telangana for weaker sections. Now, the financing, funding, but they are very keen that these types of projects are taken up in a phased manner. In fact the Chief Minister had announced about a year back, his plans to construct may be two lakh houses or something like that. But depending on how they go about doing it, I think these are future opportunities. We are not basing all our business plans on these kinds of opportunities. But as and when these come, this could be new areas for growth for us.

Dhruv Bhatia: And one last question was on….on debt you said the interest cost was around 11-1/2%...

S. Ramnath: 11.9%, yeah.

Dhruv Bhatia: This was for basically your debt, which you are actually taken, but if you see you have other forms of interest payment or financial charges, how would as a percentage of sales or how should we factor this?

S. Ramnath: I will explain to you. We have two components in finance cost that we disclose as Indian accounts; one is the interest on our borrowings. The other one is bank charges, bank commissions and LC charges and those kinds of things, that we pay, and also some projects where clients charge interest on their advances. So these typically are about 1.3-1.4% of our revenues over and above the interest cost on borrowings.

Dhruv Bhatia: Okay sir. That's it from my side. Thank you.

Moderator: Thank you sir. Sir, we have the next question from Surbhi Vugar from Param Capital Research Pvt. Limited, please go ahead.

Pratik: Hi sir, this is Pratik calling from Param. Sir, my question is that since we have such an excellent execution capabilities, and suppose there is a scenario where we have around say Rs 10,000-15,000 crores worth of order. So, in that case, do we have enough available resources both in terms of human resources, which include management bandwidth, as well as the financial resources to handle such big orders?

Adun Saraban: One good thing if there is a company that is different from the others that is we have our strong R&D Company, where we can contribute in our growth. That has been continued since 2007 and till now. So that is, for a year ahead, we can cope up that situation, I believe, that is okay. Parent company is willing to support in terms of the management, but local support for sure, ITD thinks that it can be taken care of.

S. Ramnath: Let me elaborate on what our MD said. If you are looking at capital, if we do you say Rs 10,000 crore of order book growth, naturally we will have to look at the type of orders, whether these kind of orders, what type of capital inflows they need, working capital. Presently we are not a BOT, we don't do investment projects, you know that. We are not an infrastructure company, in that sense. We are a construction company, we do only EPC projects. So generally our focus is to take up and execute projects with client's funds, client's advances, and get paid for the work we do. So we don't expect anything more than working capital requirement for that. And that also, if these projects are positive cash, you don't have to put in working capital, clients provide the funds for you. That is one thing. Secondly, if even working capital needs go up, banks might want you to infuse equity, at that time we will have to see. But presently we don't see the need for the next year or two years, based on the growth we have, that we would need any major capital infusion. As far as human resources are concerned, yes, that remains a challenge for everybody, but if you look at it, the number of projects we do today are about 50 odd projects we are handling today and we are at about Rs 3000-3500 crore level, execution level. Now, this is not going to happen overnight, that we will reach Rs 10,000 crores, Rs 10,000 crores will be probably five years down the road or four, five years down the road. So, if that happens, we will have to look at it, in advance we will be planning for people and other resources, basically project managers, project management capabilities we will have to build in. So those things will be a gradual process. We are doing that even today.

Pratik: Sir, and in terms of the Mumbai Metro sir, what is your share, because I think you mentioned that some increase of share might happen.

S. Ramnath: Yeah, might happen, because there is likelihood that between the three partners there may be a change in the share, but at the moment we are going with 40% share.

Pratik: Okay alright sir. Thanks a lot for the questions.

Moderator: Thank you sir. Sir, the next question comes from Mr. Vipul Shah from Sumangal Investments, please go ahead sir.

Vipul Shah: Hi good afternoon sir and congrats for a good set of numbers.

S. Ramnath: Thank you.

Vipul Shah: Yeah. I just want to know, can you give me more details about this NHAI settlement? That is question #1, and second, are we paying any technology transfer fee to the parent company or anything like that?

S. Ramnath: No. Now, NHAI, let me recap, we had about Rs 309 crores worth of receivables and cost WIP sitting in our books, which were in the form of claims on NHAI for cost incurred as well as receivables that they were not paying, they were in dispute. They were lying in several forums, some were in arbitration, some also we had received awards, but were being challenged by NHAI, in High Court and other Supreme Court. So that was the status. Some we were in the process of…..have filed arbitration claims, awards had not happened. These actually were about 10 projects we did for NHAI in five states over a period between 2002-2012. Now, we decided in the long term interest to save our own energies and time in chasing all these things, we decided to get into a settlement agreement with NHAI, which we concluded last March, and pursuant to that settlement we got about Rs 184 crores and the balance Rs 123 odd crores we wrote off.

Vipul Shah: Okay. So that is full and final settlement.

S. Ramnath: Full and final, there is nothing remaining in the books, we took it as a one-time hit. That is why it is being shown as an extraordinary item. Now, coming to your second question, we do not pay any technical fee or other fee to our parent. Earlier we had an agreement to pay them 0.5% royalty for use of their logo, even for the last two years that is also not being paid. They have waived the royalty; our parent company has waived the royalty for both 2014 and ’15.

Vipul Shah: And sir, last question, out of your, this Rs 5000 odd crores order book, how much will be executed in the current financial year?

S. Ramnath: About 40%.

Vipul Shah: Okay sir. And one last question, do Marine contracts come at a higher margin than the other contracts sir?

S. Ramnath: Traditionally Marine contracts, we have been able to get a better margin, one is because the lower competitive intensity, there are only three or four players in Marine. The other one is also because these projects get executed on time without any stoppages. These are the reasons traditionally.

Vipul Shah: Okay, thank you and all the best for the future.

S. Ramnath: Thank you Vipul, yeah.

Moderator: Thank you sir. Sir, our next question comes from Mr. Kunal Shah from Amideep Investment Consultant.

Kunal Shah: Hello sir, can you just tell me what is the order inflow in quarter 4?

S. Ramnath: I don’t think we had any major inflow in quarter 4, but I will try and give you the number, one moment.

Kunal Shah: Okay. And can I submit the other question now? And my other question is, as in you mentioned that the Q4 margins were lower because of certain projects, we had to revise the margin downwards. So what would these projects be and what exactly happened, because raw material environment is quite benign as to our knowledge.

S. Ramnath: No, it is, revisions happen because of not only material, delays and cost increases, which we are not able to pass on to the customer, delay in execution of projects, those kind of things. So, also because some costs that you incur, contractually you have to thereafter go and claim with the customer, customer till he accepts, they cannot be concluded. So these are costs that are taken and then when the claims are accepted by the customer, then they are reflected in revenue and additional variation in price.

Kunal Shah: Okay. But then in that case, as in, so we may see higher claim going forward…?.

S. Ramnath: No, what happens is, I will give you one example. There is on metro project we are doing, so there we had to…. the project is getting delayed, there is a change in the alignment, and therefore the customer has given us additional work. But that work finalization has not happened. So till that happens, that additional price and the additional margins are not reflected. But the cost that we have incurred additionally or delay in executing this current project is waiting for the new alignment. So we have to write down the margin that we reported on the project even earlier. These are longer term projects. Like say two years back I was taking a margin of around 6% to 8% on the project. Because the variation has not happened, I am waiting, the progress is slow, my margin may have come down to 4%, let's say. Now, going forward, the client will entertain it, give a variation, new alignment all that, at a revised price, but what happens is, till that happens, my existing costs I have to rebook and take it, rate down the margin which I booked earlier. So for the quarter it comes as a charge, although it might pertain to the costs or the revenue that I have recognized even earlier.

Kunal Shah: Okay sir, as in, are you giving any ballpark number as to what percent of the order book is impacted in such a way?

S. Ramnath: No, I explained, this is a part of the slow moving order, also some cost overruns on some projects, some metro projects. I spend about 10%, which we explained.

Kunal Shah: (Inaudible).

Moderator: Sir, the next question comes from Mr. Rajendra Misra from IDFC, please go ahead sir.

Rajendra Misra: Hello sir.

S. Ramnath: Hi Rajendra, long time.

Rajendra Misra: Yeah, yeah. Long time….good to catch you sir. If you could throw some light on the competitive intensity in this space, particularly marine and metro, how is the competitive landscape looking like?

S. Ramnath: Yeah. Our boss, MD will answer that better, but I will try to answer to some extent I know. Recently in Marine projects, wherever we have bid, the competition has been between three people, ourselves, Afcons and Simplex. Sometimes L&T participates in larger projects; in smaller projects you don't find L&T. This has been the scenario. There was earlier, a year or two back, there was one smaller party called DBM Geotechnics. They also used to participate, but these days we don't find that, because I think they are having some sort of stress or something like that. Hindustan also used to participate, but selectively, not in all projects. In BMCT they did compete with us, but in Udangudi and all they were not there. Now, coming to the Metro space, the competition is larger. If it comes to tunneling projects, it is lower, but in elevated there are almost 8-10 players who come in. You have HCC, Gammon, Simplex is not participating these days, but Afcons, you have got us, you have got others in JV with so many people, J Kumar, Pratibha, there are many people like that. In tunneling when it comes to, there are more of people like HCC, us, L&T, J Kumar, Afcons, these are the people generally.

Rajendra Misra: Okay. It is helpful. Anything else that Mr. MD might want to add, otherwise I am done.

Adun Saraban: Yeah. Actually, he addressed most, but I see there is one development that is in the past few six months that is where the competition, I mean, very much basically in the past. But now it is very less, going down. I mean, in the few tenders, we have hardly found there is two or three competitors comparing to the six, seven, even 10 in the past. That is okay, you may the reason why, but that is the trend of the competition today.

Rajendra Misra: Okay. And my second question is how many states you would be operating now?

S. Ramnath: Let me put it this way. Some of the states where we are not doing any work today that is easier to answer. We are not doing any work in Bihar, we are not doing anything in Assam, some of the North Eastern states we are doing, Sikkim we are doing work, Agartala, Tripura we are doing some work, Mizoram we are doing some work.

Rajendra Misra: Sir, my question was basically that, just wanted to know in terms of the states, I mean, we have been hearing that some activity has been picking up in UP and couple of those states, so can you cross verify in terms of whether some states it has really picked up in terms of projects because you mentioned Lucknow in that Metro thing, so…

S. Ramnath: Yeah, Lucknow Metro has tendered some projects and our parent company is qualified to bid and they have bid for one underground tender, it is about Rs 1400-1500 crores, in that range. And when they are awarded, we may be a major portion of the work will be done by us, major portion I would say. As far as MRT, yes, there are cities where MRT projects are going on. Water, there is some activity going on in the form of water distribution, micro tunneling and all that. Ports, yes, work is going on, roads, government has been talking about awarding, some EPC projects have been awarded. Hybrid annuities there have not been too many bidders; BOT there are no bidders today. So that is the status. Roads, yes, government has been talking of executing projects. In the freight corridor, eastern freight corridor, some progress has happened. But we are not directly involved in that, because they are all track laying and all that, which is not our forte. So this is what is happening. And in buildings yes, NBCC have been awarded many projects and things like that, but that is a very intensive competitive field. There are many competitors for building projects, you know, general purpose building projects. But mainly, if you ask me, the indicator of fresh investment in the economy is the new piling work, the new ground engineering work that used to be done. Now-a-days that has not really improved, from our sense; we are doing about Rs 300-350 crores worth of work in a year. Typically earlier we were doing about Rs 600 crores worth of work. New investment will be indicated by improvement in piling work and all. So, in other words, we used to do piling work for power plants, refineries, real estate projects, large ones….so there is not much improvement happening here, if you ask me.

Rajendra Misra: Okay. And this is very helpful material that you have given me in terms of lead indicators for….interesting and just one very last small query, you mentioned in the call that your parent has waived royalty for ‘14 and ‘15, so what will be the royalty like and whether it will be applicable in the current year ‘17?

S. Ramnath: Yeah, Rajendra, under the terms of the agreement, half a percent of our standalone revenue was to be towards the royalty for use of logo. So, in that sense if you see, last year our standalone revenue was 2,700 crores, 0.5% would have been Rs 13-14 crores, which they have waived.

Rajendra Misra: Okay. So, this will now kick in from ‘17 onwards?

S. Ramnath: No, this will continue, this year also they don't plan to collect any royalty in 16, the agreement is there, but I don't think they will because CY16 also they will not, ours is calendar year in that case, you know that. For '16 also I don't think there will be any royalty taken.

Rajendra Misra: Okay. Thanks sir, thanks, very nice talking to you, all the best.

S. Ramnath: Nice talking to you.

Moderator: Thank you, sir. Sir, we have the next question from Mr. Jitin Rushi from IDFC Securities, please go ahead sir.

Jitin Rushi: Hello? Yeah, good evening, sir.

S. Ramnath: Good evening.

Jitin Rushi: My question is regarding the NHAI bid pipeline as we used to do the projects earlier, so now are we participating actively in the bids in terms of EPC projects, sir?

Adun Saraban: See, I would categorize the road into the area; one is bridges, flyovers and elevated roads. In this segment actually we have been doing and continue doing in bidding also, but another one without structures, this is since we had bad, I can say that it is not very good experience, so bid, but anyway that is based on the new developments and approach of the NHAI in their new tenders where many conditions have been improved, so that if we frame up our risk mitigation and action, working strategies, so that in any project, that is in the past, this framework, risk level under the manageable level, we will go. So, we cannot say that we completely closed for road sectors, but be more cautious and selective in this road.

Jitin Rushi: So, as of now we don't have any outstanding bid in the road projects, right?

S. Ramnath: No, we have bid for one bridge at Noida, it is not a big one, about Rs 110 crore value, but selectively, as our MD said, if there are bridges and elevated structures, the level of competition will be lower and these are all and you are not going to have front issues and all that. You are working for a very specified distance and the scope of work is very clearly made out. Whereas, if you take a large stretch of a road, any typical road you could have still the front issues and work stoppages because of local issues and many things like that. So, we have kept away from those projects now, but what our MD was saying is, since NHAI has come out with some revised guidelines in these kind of projects on 90% of land to be allotted, if that term doesn't come with that defined time we can quit the project, terminate the contract and all that, so those kind of things, but we have not participated yet, because we have look for some more clarity on these things.

Jitin Rushi: Correct, okay and sir, one more question, sir. Of this total order book, these are all fixed price, what is the fixed price contract portion, sir of the total order book?

S. Ramnath: Most of these contracts are contracts with price escalation clauses built into the contract. Fixed price will be typically smaller term contract like specialist works and others where your price is fixed and you don't have any scope for asking for price increase due to any commodity price changes, but escalation clauses in most of the tenders which are six months and above or one year and above, typically you will have escalation clauses for raw materials, fuel and freight increases.

Jitin Rushi: Sir, this specialist work contract is for, what is the duration for this?

S. Ramnath: Pardon me?

Jitin Rushi: The specialist works contract is for how long?

S. Ramnath: These are short term contracts; typically they vary from three months to nine months, less than a year.

Jitin Rushi: Okay and sir, one last question. What is the cash in the books?

S. Ramnath: Cash in the books is about Rs 140 crores.

Jitin Rushi: That is consol, right sir?

S. Ramnath: One moment, let me check. Rs 147.6 crores.

Jitin Rushi: That is consol you are talking about, sir?

S. Ramnath: Consol.

Jitin Rushi: And standalone, sir?

S. Ramnath: Standalone, I will tell you, Rs 140 crores.

Jitin Rushi: Okay, sir. Thanks a lot, sir, all the best.

S. Ramnath: Thank you.

Moderator: Thank you, sir and sir, we have the last question from Mr. Parikshit from HDFC Securities, go ahead sir.

Parikshit Kandpal: Sir, I just wanted to know that the big ticket infrastructure projects which are coming in Mumbai like Trans Harbor link and coastal roads, so how do we intend, I mean, do you have any strategy to bid for these projects, are we tying up with any international partners, so how will we go about these projects?

Adun Saraban: Yes, this is a very good question, because actually we have been waiting for a Mumbai Trans Harbor Link for almost 10 years.

S. Ramnath: We have become old now waiting for it. We were young when the first bid came.

Adun Saraban: We are preparing some strategy to tie up with at least one or two big global players, since it is being JICA funded project our major target with Japanese company, but that we will see in one or two months from now who is going to tie up with us. For sure, we will be going ahead with this Trans Harbor link and coastal road that you are mentioning.

Parikshit Kandpal: Okay, just lastly Ramnath sir, I just wanted to know the PSU banks are under tremendous stress, so there is a balance sheet repair going on, so what kind of challenges you are facing in getting non-fund based limits or bank guarantees, the working capital debt for your own order book and how is the industry basically going to cater to the requirement of huge ordering which will happen, so how will the banks behave?

S. Ramnath: Yeah, so I think that is the second good question, Parikshit, you have asked. See, today the challenge for the industry as a whole has been, banks inability to lend to this sector further because of their overexposure to the infra and construction space in general, but fortunately for us, we have not had any increased requirements in fund based working capital limits. For non-fund based limits, for LCs, bank guarantees, so far we have not faced any difficulty in getting increases from an existing consortium of banks and some new banks are also willing to join our consortium as and when it is needed. So far there is not much room for new banks to come in, but yes, you are question is right because some of the leading banks, I don't want to name them, they have told us that we want to participate more, but unfortunately today given our situation we may not be able to take up more, why don't you ask some of the other consortium fellows to take more and that kind of things has happened.

Parikshit Kandpal: Okay, sir and just one last question to Adun, sir, when we are, 50% of our order book is in marine, we are doing relatively well in MRTS segment, so going forward is there any particular segments which you are personally looking into where you want to increase your exposure?

Adun Saraban: See, the marine will continue to be the major contributor in '16-'17, but there are other areas, like building, this is a very exciting segment, I can say that we are targeting to grow in the FY16 about 60%.

S. Ramnath: Building and industrial.

Adun Saraban: Yeah building and industrial and the other one is water segment, we believe that micro tunneling or thrill in technology. Now we are growing very well, we start with one project in Kolkata. Now, today we are doing one more state, it is the fourth project in micro tunneling project and I believe that every big city or metro city this technology is working well, because of the open cargo to ease traffic that is very difficult. But the technology that has been working well in the dense traffic, I can say. This is one area that is of the new thing I think in the years to come. Mass housing, of course, because it is my direct experience, I was working at a project before, so I know very well in this segment as and when there is a picking up, one of the first player that is to come in this segment. Thank you.

Parikshit Kandpal: Okay, thank you. Moumita, I think you can conclude the call now. So, Mr. Ramnath, you have any closing comment, sir.

S. Ramnath: No, I thank all the investors. I just wanted to say that we are one of the few construction companies where 40 mutual funds, 10 FIIs hold stock in our company amounting to about 28%. So, I think this is a very unique thing, because we are not a very big company like L&T or some of the others, so for a company with a small capital base of Rs 15.5 crores, 28% of our equity with good mutual funds and other investors, FIIs and this kind of thing makes us quite proud and we are happy to have the support of these kind of investors, that is the only thing I would like to say.

Parikshit Kandpal: Yeah, thank you. Thank you. Okay, Moumita, that's all. I would like to thank all the participants for coming in this call and being patient. Thank you so much. So, we can disconnect the call now.

Moderator: Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may disconnect your lines now. Thank you and have a good evening everyone.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.