"Power Mech Projects Limited Q2 FY2020 Earnings Conference Call"

November 18, 2019

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Moderator: Ladies and gentlemen good day and welcome to the Power Mech Projects Limited earnings conference call, hosted by Nirmal Bang Equities Private Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Muchhala from Nirmal Bang Equities. Thank you and over to you Sir!

Chirag Muchhala: Thank you Zaid. On behalf of Nirmal Bang Equities, we welcome you all to the second quarter FY2020 results conference call of Power Mech Projects Limited. The management is represented by Mr. S. K. Ramaiah, Director (Business Development), and Mr. J. Satish, CFO. I now hand over the call to the management for their opening remarks post, which we can take, questions. Over to you Sir!

Jami Satish: Thanks Chirag. This is Satish here. Good afternoon. Given the challenging environment Power Mech has again done exceptionally well.

During Q2, we achievedtotal income of Rs 535 Crores and the contribution from mechanical business the revenue is Rs 182 Crores whereas civil it is around Rs 146 Crores and from O&M Rs 170 Crores and the balance from electrical business Rs 34 Crores whereas last year Q2 FY2019 it was around 538 Crores and the revenue breakup was from erection Rs 175 Crores, from civil Rs 208 Crores, from O&M Rs 139 Crores and electrical it was 11 Crores, and the EBITDA for Q2 FY2020 it is 71 Crores whereas last year it was close to 72 Crores, and the PAT for Q2 FY2020 it is around 35 Crores whereas last year it was close to 28 Crores.

Similarly for H1 FY2020 half year the total income is Rs 1029 Crores whereas last year it was close to Rs 1003 Crores, and the breakup is from erection during H1 this year is 358 Crores and from civil it is 281 Crores, O&M Rs 311 Crores and from electrical it is close to 71 Crores, whereas last year H1 the revenue from erection was 356 Crores, from civil it was 350 Crores, from O&M it was 268 Crores and the balance from electrical close to Rs 21 Crores.

Overall, it is more or less flat, whereas the EBITDA for H1 FY2020 it was around 137 Crores and last year it was close to 136 and PAT for H1 FY2020 it is around 64 Crores whereas last year it was close to 53 Crores, so for half year with increase of 2.55% in revenue EBITDA has gone up by 1% whereas PAT has gone up by almost 20% plus.

In terms of domestic and international during Q2 the revenue from the international business is close to 16% which is around 86 Crores and the balance is from the domestic business, similarly last year Q2 the revenue from the international business was close to 24% and whereas domestic it was 76% so there has been change in the business mix, with a dip in the international business.

Similarly, for H1FY20 the revenue from the international business is close to 13% and the rest is from the domestic business whereas last year, it was close to 25% from the international market and the rest was from the domestic business.

In terms of mix from the power and non-power business, during Q2 FY 20 the revenue from the non-power business is close to 30% whereas from power business it is close to 70%, whereas last year it was close to 36% from the non-power and balance 64% was from power business.

For H1FY20, the business from the power business is close to 86% whereas from non-power it is close to 14% and similarly for H1FY19, the revenue from the non-power was 30% whereas from the power was 70%.

There has been change in the business mix, in O&M vertical we have seen good performance, civil there is dip because of the change in the order book and business mix. Erection has gone up because of the contribution from the non-power .

In terms of order booking , the target what we have set for ourselves internally is going as per the plan. There are delays few months in terms of addition, we have done close to 1340 Crores of order booking during the first half and upto date it is around Rs1551Crores. We have set a target of Rs 4000 Crores for this year, if all goes wellt we may comfortably cross 4500 Croresby year end.

So, the additions in the order book in the next four months will be substantial and we are working towards that. There are some delays in our receivable especially from the Telangana irrigation project of Kaleshwaram. for three to four months.The Government has got back-to-back funding from the banks, they are unable to contribute their 20% margin so there aredelays.

Apart from Telangana the Andhra Pradesh AMTZ Project which we have completed in a record time and for the final bill, the government is taking sometime to release and we are expecting that to be released in January or February. Because of these two projects the receivable cycle has gone up, the overall current asset has gone up, and the utilization of working capital loan has also gone up. If you see there is increase in the borrowing cost because of the increase in the utilization of loans.

In spite of flat in Q1 and Q2 execution, we are trying to see that at least double digit growth can be maintained by year end. In terms of order booking there is quite good amount of visibility both in domestic as well as international and Power Mech has done exceptionally well adding good amount of order booking from Bangladesh especially for the MAITREE project, where BHEL is the EPC contractor and good amount of traction is happening there.

Now I request Mr. S K Ramaiah to add on the business development , thereafter we can get into the question and answer session.

S Kodandaramaiah: In particular to what the update Satish has given on the financials and brief on the business side, what we would like to say is that overall, we had around 4000 Crores of the target for the business side for the growth and all, and as on today we achieved around 1551 Crores on up to date basis.

The main focus had been in this first half had been the further breakthrough upwards in Bangladesh that is ongoing job. Now t the cumulative order what we have bagged in Bangladesh comes to 860 Crores and that is a major achievement and then we have taken a major job in Bhusawal of Rs 286 Cr, of the civil and structural job and then we have taken in Dolvi, JSW and then in Vijaynagar about 193 Crores and some of the non-power civil works, the building stuff from the railway around 86 Crores and O&M has been a real story of having made substantial achievements ..

O&M achievenet up to date is Rs 401.75 cr Crores in the this first half what we have done and that is quite a commendable job, where for the first time as part of O&M diversificationin NMDC job of Rs52 Crores for the material handling long-term O&Ms contract has been awarded and then we have taken three jobs from NTPC based on the new policy of s long-term contracts in O&M jobs , also of Rs 53 Crores for Meja, Khargone and Lara of Chhattisgarh. We have also taken the O&M renewal job of Rs 68 Crores of Jabua power and then shutdown and repair of about 17 jobs we have taken worth of nearly 75 Crores .

Therefore what we are looking and what Satish has said is that I would like to reiterate our focus will continue to see that in spite of the muted investments in the market we have confidence of achieving orders of about 4000 Crores for the current year. There is an opportunity in 2x125mw Akrimoto GMDC plant for long term O&M where we are in L1 position of about 760 Crores and because of the PPA issues it is getting postponed we are still hopeful about this opportunity..

Then NMDC for a major iron ore material handling package where most of the post bid issues have been resolved now we are awaiting the price bid finalization maybe it will happen in the month of December and that is a major opportunity.

The JP Nigrie plant there is a renewal of the contract of 160 Crores in the O&M side and then two major jobs in the export sector in the Middle East we are targeting about 200 Crores and then domestic market some things are happening particularly on the new unit installation business which has come up mainly what I can say is L&T has grabbed two major jobs at Khurja and then at Buxar and they have a total order booking of about 11000 Crores and four units of boilers and turbines is coming up for bidding and we are in the process of bidding for the boiler package and turbine package there.

BHEL also has got a substantial backlog of about 9300mw of new projects for which tendering in progress at various stages for sub-contracting, but only aspect we are looking at these opportunities of BHEL is to be selective and also jobs which can be executed with reasonable margins and that is the focus. Then of course in the case of JSW expansion whatever has happened we have taken about 193 Crores orders t in the beginning of the year, but we are expecting more orders and we have given offers worth of nearly 1000 Crores but unfortunately there was some postponement of the expansion in Vijaynagar because of steel price issues where investment is getting postponed, but they are still keeping the expansion plans open which will take some more time,t, but even then there are two packages in coke oven and some specific areas of standalone expansion they are carrying on with their present investments and that we are going to pursue and take it up.These opportunities can be around Rs 150 to Rs 200 cr

The new EPC tenders which are expected in the power sector are at Lara and Singrauli 4 units of 660 megawatts, then NLC is going to be retendered at Neyveli that is 2 units of 660 megawatts and there is a possible expansion of Koradi and the new unit coming up from NLC in Odisha. These are the new capacity addition developments.

Then the other opportunity on the FGD side, it has been a stupendous effort in the investment climate and it is is going to be taken up on large scale basis. It is very interesting. In terms of the number of units totally as on today around 66000 megawatts ordering has been done for the FGD jobs mainly by NTPC around 31000 megawatts and balance with the other players, therefore that is a positive story and we are discussing with GE for couple of projects in Simhadri and in Sipat where GE has obtained the EPC orders. and they are also bidding for the expansion and some of the expansions coming up for the FGD investment in the Talcher over 6 units of 500 megawatt units. Therefore FGD side there is opportunity I can say, 66000 megawatt ordered balance 100000 megawatts to be ordered that will take another one year, but it is a matter interest of where we can pick and choose the jobs because the quantum of the work is not much but here the we will be interested to see where we can enter on a negotiated basis possibly with our GE and L&T whereas in BHEL it is based on tendering and we will be bit careful how to handle BHEL FGD orders received so far, .

Then a couple of things the present backlog as on today it stands at about 7424 Crores, but we have to factor certain things particularly the Andhra Pradesh factor, the irrigation project of the Lift Lift irrigation that order r is on hold about 1238cr and then Sarva Shiksha Abhiyan of Rs 872 Cr and these two we have to see the present political climate and the way the present Andhra Pradesh government is working on that. Therefore, visibility we can say not much there, and that is a critical factor we have to definitely keep in mind but in our present this year's sales and turnover we are not factoring that and then the new orders also what we are taking based on what is the identified opportunities in different sector we are looking at it.

In fact, even in the present condition we would like to state that 11000 Crores of opportunities have been identified in EPC business, civil business, O&M, electrical and also hydro business and others and that is where we are hopeful of this number of 2500 Crores to 3000 Crores of orders for the balance period of the current year.

Therefore, even factoring this issue of Andhra Pradesh perhaps coming year also we will have a favorable backlog of what has to be executed and maintain the growth of 10%. Satish!

Jami Satish: Yes, Chirag this is from our side.

Chirag Muchhala: Yes, okay Sir we will open the floor for questions.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Sanjay Dam from Old Bridge Capital. Please go ahead.

Sanjay Dam: Good morning team. I just had a query if you could just give us the geographical breakup of the order book?

S Kodandaramaiah: Bangladesh Maitree job has gone up to 860 Crores, and also the ongoing work at Bhola of Rs 72 Cr and then Nigeria we were having around $76 million, and in Tamil Nadu now we are executing jobs of 350 Crores, and then western region we are doing around 286 Crores in Bhusawal and then some of the balance jobs which are still continuing at Barh and then NabinagarETC jobs in Bihar and then the O&M jobs the backlog which is now available about 1100 Crores that is spread about 41 plants across the country , in terms of the O&M and then some of the other jobs are I can say is that non-power we are doing three jobs in cross country pipe lines, one in Tamil Nadu, one in Maharashtra, one in Gujarat that is around 350 Crores. We are also executing major Railway electrification work of Rs 350 Cr in Sadalpur Rajasthan, substations work in Nagaland of Rs 102 Cr. We are not factoring the AP jobs of Chitrawati and Sarvashiksa Abhiyan, and of course the ongoing works of Ramayan pet in Telengana of Rs 373 cr. Hydromagus subsidiary is executing about Rs 229 cr in Haryana, Uttarakhand, Kerala, AP ,

Sanjay Dam: The 7424 Crores of order book, also contains the irrigation and the Sarva Shiksha service projects is it?

Jami Satish: Yes, it consists of both of them amounting to Rs 2112 Cr which are on hold and the visibility of Rs 2112 Cr is bleak

Sanjay Dam: So, to that you expect to add around 2500 to 3000 Crores for the remaining part of the year is that a correct understanding?

Jami Satish: Yes, we are expecting in the same range.

Sanjay Dam: So roughly you want to add and so net of the execution for the remainder of the year what should be the yearend backlog?

Jami Satish: The net order back log after excluding Andhra Pradesh orders of Rs 2112 Cr , is Rs 5312 Crores. We are targeting 2500 Crores to 3000 Crores to be added with this the gross will be close to Rs 8000 Crores plus and after taking out for the second half execution the backlog could be in the range of close to 6500 Crores plus.

Sanjay Dam: So, it should be the FY2020 yearend backlog.

Jami Satish: Yes, that's right.

Sanjay Dam: There were some bits of working capital issues understandably from those two projects that you spoke about. So, if they were to normalize by the end of the year the Kaleshwaram if that were to start and the AMPT if you get the money by the year end and what will that due to your working capital days and what do you expect the year end the picture to be.

Jami Satish: Yes, two projects Andhra Pradesh AMTZ and Telangana Irrigation Project stretched the working capital cycle. In Telangana Irrigation Kaleshwaram Project due to margin funding issue from Telangana Govt, lenders could not disburse the loan that has delayed our payments. Subsequent to September 2019 we got part payments from Telangana Irrigation Project. For Andhra Pradesh AMTZ project Govt proposing to make payments in in two to three installments. First installment we are expecting during January and part in February &

March end. So, with this the numbers maybe again in line with March 31, 2019 numbers maybe in the range of 128 to 130 days that is what we are expecting.

Sanjay Dam: Thanks so much. Wish you all the best. If there is other question I will come back in the queue.

Moderator: Thank you very much. The next question is from the line of Prem Thakur from Prudent Equity. Please go ahead.

Prem Thakur: Sir our international business is shrinking as compared to the last year, so what is that reason behind that?

Jami Satish: No, Sir it is not shrunk. If we look at Bangladesh there has been substantial order booking in the first half.

Jami Satish: Sir if you see like the backlog order book for international at March 31, 2019 which is the opening order book for this year it is around 1149 Crores, s but if you see the backlog as of now it is around close to 1485 Crores. So, the difference is in fact the order book has gone up that is mainly because of Mythri which is close to 850 to 900 Crores which is a very fast track project. In terms of revenue our execution has come down because most of these orders which we have got added in Bangladesh in the first, second and third quarter and for MPA that is Saudi and LLC that is in Oman the projects are about to close. We had substantial revenue last year from Oman & Saudi, this year not much revenue contributed from these two projects, but Mythri Bangladesh it is taking up and even Nigeria is doing well. This will ramp up international revenue.

Prem Thakur: Thank you.

Moderator: Thank you. The next question is from the line of Rishit Shah from Dhanki Securities. Please go ahead.

Rishit Shah: This is regarding the see the material cost so if we basically see and in comparison, to year-on-year there is a surge in the material cost significantly so, but the revenues have more or less remains stable. So basically, can you just throw some light on why it is not? Thank you.

Jami Satish: Yes, the material cost in Q2 is close to 79 Crores to 80 Crores mostly stocks and the consumables which is close to 15% and if we see Q1 it is more or less 15% to 15.4% that is close to 76 Crores, but if we see last year the trend is slightly changing because of projects like Dolvi, Bellary and the Sadulpur railway where the mix of material component is high as compared to other mechanical business model.

Rishit Shah: So, one more thing basically when we say so the material component, so that basically include this sector other than O&M also right?

Jami Satish: Yes, O&M the cost in terms of the subcontract and manpower put together will be 65% & material cost in the form of consumable is only 3% to 4% of the total O&M revenue.

Rishit Shah: Understood, thank you.

Moderator: Thank you very much. Next question is from the line of Sunil Nagare from Enrich Investments. Please go ahead.

Sunil Daga: Good morning Satish. This is Sunil Daga from Enrich Investments. See my question is regarding the Andhra Pradesh dues of ANPZ project have you received any payment after the new dispensation has taken over and how much is the total due from there?

Jami Satish: Post the new Government, we have got around 40 Crores plus which was a good amount from two bills which we got it post the new government.. As of now it is around 50 Crores plus which they have promised to release part in January and rest in February and March. Since the project is completed, we are fortunate because everybody knows now the environment in AP is slightly different and we are in safe zone..

Sunil Daga: Thank you.

Moderator: Thank you very much. Next question is from the line of Pratiksha from Equitas. Please go ahead.

Pratiksha: Thank you for the opportunity. Sir the order inflow in O&M section has the rate has come down and there has been now substantial orders in electrical segment so do we see any change in the margin profile going ahead and is this identified orders or opportunities that we have pursuant from 2500 and 2600 Crores in the balance of the year what will be the contribution from O&M and electrical segment?

Jami Satish: If we see during this year the addition from O&M has been quite good Rs429 Crores and in terms of revenue also the mix is comparatively better and the reason being one is that traditional long-term contract plus the temporary shutdown work has helped us to achieve higher revenue in O&M pie during first half which is around close to 311 Crores of revenue whereas last year it was only 268 Crores so the increase in the O&M revenue is close to 16%. So, the mix is quite well what we planned. Of course, in electrical we thought that we will add 350 Crores to 400 Crores of new orders in the first half that got delayed but in second half we may expect two orders in the range of around 400 Crores, **Pratiksha**:

No Sir I am talking about the inflow, contribution of O&M in the order inflow. I understand the revenue has gone up I am only talking about the order inflow.

Jami Satish: The order inflow is around Rs 429 Crores.

S Kodandaramaiah: See actually there are some contracts under renewal 160 Crores is JP Nigrie under negotiation that is a major order which we are expecting then the typical shutdown jobs and the other renewals we are expecting 250 to 300 Crores the second half, but I will not discount.

Pratiksha: That is around 400 Crores to us if that comes put together could be close to 1000 Crores.

S Kodandaramaiah: Yes, that is where we were not taking at this stage without that we are taking around 250 to 300 Crores.

Pratiksha: Thank you.

Moderator: Thank you very much. The next question is from the line of Chirag Muchhala from Nirmal Bang Equities. Please go ahead.

Chirag Muchhala: Yes Sir a few questions from my side Sir firstly for FY2020 it will be helpful if you can give the revenue outlook in the four-segment wise separately?

Jami Satish: For FY2020 the plan is, O&M could be in the range of 600 Crores plus and electrical maybe in the range of 240 Crores, . Civil will be more or less flat as compared to last year or maybe slightly come down because we are seeing it should be in the range of 730 Crores to 750 Crores and the balance should come from the erection business both the domestic and international put togetherand the mix from domestic and international could be 15% to 16% international and the rest will be domestic.

Chirag Muchhala: So, net-net what kind of growth we are expecting around 10% growth in FY2020?

Jami Satish: See first half of course unfortunately some of the orders we lost from Andhra Pradesh and the other way round its positive for us since the environment is not good in AP and further building the order book is not big task for us in the present scenario. Of course, it will take some time to realign our order booking. Some of the orders which we thought of adding in Q2 and Q3 are now getting added in Q4 and from the Telangana iirigation project we wanted to do close to 160 Crores to 180 Crores of revenue and there we see that unless the government improves its payment cycle we will not do fast track work because if we get the work done and there is any delay in payment then again it will impact our working capital cycle. Seeing the order backlog what we have at least double-digit growth we are anticipating and. If Telangana improves probably slightly better than that, that number also is possible that is in terms of the revenue but in terms of profits of course the margins are intact, the positive side is like now company have got the tax benefit because we were paying 35% tax, now the change in the tax structure will definitely help us to improve and increase in turnover will add at least another 20% plus growth in terms of PAT.

Chirag Muchhala: Right Sir on moving to Sir FGD what is for us the on a typical FGD order what is the value of our scope of work?

S Kodandaramaiah: No, I think both the EPC and civil work and structure work together see the presentr rate for the EPC contract is going at 50 lakhs to 60 lakhs per megawatt. Therefore, we can take 20% to 25% of that.

Chirag Muchhala: Sir is the pricing now has improved where we can also take orders because in the initial orders we stayed away due to a very cut-throat pricing?

S Kodandaramaiah: I agree with you. What has happened we have recommenced our negotiations with GE and they were also in touch with some other players, we are not comfortable with this approach of Ge , however GE are now coming back to us. we have done an FGD job at Vindhyachal of 500mw unit, and that is the only demonstrated FGD job in the country as on today for NTPC and GE has got a reference and we were there for execution, therefore they are interested in us and two projects at this stage we are focusing that is Simhadri and then Sipat and then they are also asking us to support them on the Talcher 6x500mw units, , apart from that there can be many other jobs but what we are looking at is that on all these FGD opportunities if we get it retrofited like we are working at presently at Barhr . then we are doing at Nabinagar and at Solapur, so we would prioritize of the same in those sites where we have presence as explained above.. Also some of the projects which are near to us like Chhattisgarh, Andhra Pradesh that also we can focus, but certainly the focus is back on the the FGD business.as on date.

Chirag Muchhala: Sir what is the execution timeline for us Sir in the FGD orders?

S Kodandaramaiah: It should be around 15 to 18 months because it is a retrofit package they do not and there is no real shutdown but when they do the retrofitting there are lot of disturbance in hook up r to the existing plant they give a shorter cycle anywhere between about 15 to 18 months.

Chirag Muchhala: Sir moving to civil works considering that the first half revenues of civil work are more or less flattish so except for this Andhra projects is there any other large projects in civil works which is running behind schedule either from our side or from customer’s financial position point of view?

S Kodandaramaiah: No. I think discounting the ongoing slow job in Telangana we are still focusing for example Bhusawal we have taken 286 Crores job that we are start luggage and then the international portion on the civil job it is almost 600 Crores in Bangladesh that is on track and then North Chennai we are doing a robust job there that is getting completed this year and then Uppur also we have taken a major civil work, therefore there are four or five of these jobs are there that is our focus and we should able to meet the targets inspite of Telangana.slow moving Ramayna pet canal job.

Jami Satish: What Mr Ramaiah is trying to say now is Andhra Pradesh anyway we have not factored. We have discounted that. Now what is left out is Telangana 370 Crores that we are cautious in terms of the execution to payment. We have made our mind very clear that if the payments are not happening on time, we will not fast track and we will go slow.

Chirag Muchhala: Sir on the Andhra Pradesh projects you mentioned that the value is around 2100 Crores which is on hold so these two projects school and the irrigation so what is the number of projects that we have already executed in and what are the number of receivables that are pending to be collected on for whatever amount we have executed?

S Kodandaramaiah: No, these two products are our Chitravathi that is a big project 1236 Crores. We have not spent any money because the contract was not signed. It was in dispute. The second project we have spend close to 10 Crores and now the visibility is nil. We may need to fight with the government to get that money though they are referring that they will pay that money but we may need to wait sometime. But in worst scenario the impact could be 10 Crores to Power Mech.

Jami Satish: But for the work which has been done, they are bound to pay, and that's we are expecting from the Government.. We have met the department couple of times. They have been assuring that in case of unforeseen reasons they will compensate that money but in case if something goes wrong or in worst situation we may need to take a hit of 6Croresout of 10 Crores we have spent .

Chirag Muchhala: Sir on that Sarva Shiksha Abhiyan project there were two packages so both packages are I mean collectively you are saying right?

Jami Satish: One package of Rs 512 Crores has been canceled in the last quarter itself which has been excluded from the order book.

Chirag Muchhala: No, Sir that has been netted off from order book?

Jami Satish: Yes, from order book the second one is 873 Crores.

Chirag Muchhala: 873 Crores yes.

Jami Satish: The visibility for package two of Rs 873 Crores is very less.

Chirag Muchhala: Sir the second package III which was 513 Crores that is not part of order book?

Jami Satish: Yes its not part of the order book, it's been excluded.

Chirag Muchhala: Sir last couple of questions so Sir what is the total amount of retention money currently?

Jami Satish: Yes, retention money is around 327 Crores whereas if we see 31st March it was 316 theamount is not increasing because the realization is happening on average 60 Crores plus.

Chirag Muchhala: Any portion of this retention money from any Andhra projects or not much?

Jami Satish: From Andhra Pradesh there is only from AMTZ Project which is about 50 crores plus of final bills and we are in the final stage of realization.

Chirag Muchhala: So that 50 Crores is part of this 327 Crores, right?

Jami Satish: Yes partly of the total final bill..

Chirag Muchhala: Sir last question Sir so on a now with the new tax rate the annualized tax rate should be 25.17 or will it be something different considering our international presence also?

Jami Satish: Now if we compare to Oman or Saudi all are more or less in the bracket of 20%to 22% . It will be either slightly less or maybe flat but it will not be more than that.

Chirag Muchhala: Thanks Sir. Those were all my questions. Thank you.

Moderator: Thank you very much. Next question is from the line of Sanjay Dam from Old Bridge Capital. Please go ahead.

Sanjay Dam: If I look at the revenue outlook that you had given earlier by and large most of it is in line the only one significant variant that I see is in the erection number which you had earlier kind of CAGR somewhere about 950 odd Crores this I now see that at least 800 Crores odd is the number that you spoke about why is the large difference?

S Kodandaramaiah: Erection it is still with international bill it looks to be around 800 to 900 Crores plus. The reduction may happen in the civil pie.

Sanjay Dam: Civil you said is around 750 odd Crores right which is what you have spoken about earlier also.

S Kodandaramaiah: Yes.

Sanjay Dam: So that is fine.

S Kodandaramaiah: Erection, the way it looks like it may still clock 800 to 900 Crores against what we thought around 970 to 980 Crores, the reduction could be from the MPA and LLC where we had expected some order book to happen and which is getting delayed.

Sanjay Dam: Regarding the way that funding is required if the way things are shaping up from the banking system the interest cost that I see in your P&L as a percentage of a execution or of your working capital does it do you see any change in that is it getting better there if you could give us some?

Jami Satish: Sir 2Q I will definitely say it were shut actually because if you see format never as a percentage cost equipment. So Q2 I think this is the most competitive in that scenario the percentage has gone up because this because of steel projects close to 75 Crores which got delayed so we have to resort to working capital utilization so definitely the scenario of Q3, Q4, should improve once that amount comes the utilization will come down so the percentage of interest cost should also come down.

Sanjay Dam: So, for example whatever you did in the whole of FY2019 do you see that coming to normalcy in FY2021?

Jami Satish: Not fully Sir partly for FY2019. If you see overall it was close to 2.6% or 2.4%. Simple reason one is like the order book the size of the business is going up so there will be some addition in terms of non-fund utilization that will go up somewhat. Number two we have kept sufficient limit so that any short-term and good opportunity we can have that limit backup so we have increased limits of non-fund from 1000 to 1400 Crores so there is a processing charges and one time renewal charges will go up, but at a percentage by year end it should improve, slightly more than FY2019, but compared to Q1 it should slightly come down..

Sanjay Dam: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Siddharth Oberoi from Prudent Equity. Please go ahead.

Siddharth Oberoi: I would like to know the order book post the cancellation of that 512 Crores order and the other one that is pending in Andhra?

Jami Satish: Sir this 7400 crores is the total order book and net off Andhra Pradesh is close to 5312 Crores. .

Siddharth Oberoi: It is 5300 Crores and you are expecting about 2500 Crores to 3000 Crores in the next four months more orders is that correct?

Jami Satish: Yes.

Siddharth Oberoi: You are expecting almost 800 Crores, 900 Crores order per month in the remaining part of the year.

Jami Satish: Yes.

Siddharth Oberoi: So, can you tell me what is the bidding that you have done that you expect this financial inflow of orders in the next four months?

S Kodandaramaiah: What I said was that it is about 1000 Crores are there is major jobs in the NMDC project including some O&M renewal jobs,that is in the final stages. They have to open the price bids and take a final call that will come up in the next one or two weeks and then a couple of non-power jobs are also we are looking at it and then the major thing is that I told you in Bangladesh some more orders are expecting under 100 Crores and then in the Middle East we are expecting around 200 Crores and in the domestic ETC business there are four opportunities which we are focusing one is on L&T there are about 400 Crores of opportunity in L&T because there are four unts which are coming for tendering. We are already started giving our offers there and there is another expansion project in SKS Power that has been taken up over by a Singapore company and now the management control has been changed there they are going to bring foreign investment there and we are in dialogues which is around 300 to 350 Crores and then O&M, I also expect on the O&M side even discounting the Akrimota 2x125,ws job of Rs 760 Crores where we are in L1 position, but taking time for award, we are still positive about 250 to 300 Crores balance orders to be added to the O&M kitty.

Siddharth Oberoi: Sir but are you L1 in any of these?

S Kodandaramaiah: At Akrimota we are L1 of Rs 760 Crores and then Nigrie job O&M it is a question of renewal about 160 Crores these are the things o in some stages of finalization maybe two to three months.

Siddharth Oberoi: Bangladesh will be followup orders?

S Kodandaramaiah: Probably it will be followup orders. It is follow up orders for BHEL as it make sense to give Power Mech only because of our interest it is there and more over we are fully established in Bangladeshce so that is the reason customer wanted to give Power Mech where we had almost three follow up orders.

Siddharth Oberoi: But that may still be add up to maybe 3000 Crores in the next four months?

S Kodandaramaiah: The total bidding what we are doing is around 11000 Crores what we have done and on that look into the L1 position and the offer submission status and assessing the various discussions that are going on. that is what our confidence right now. That is what 2500 Crores to 3000 Crores.

Siddharth Oberoi: You are expecting of the 11000 Crores order bids you have done you expect 25%, 30% to go to you is that correct?

S Kodandaramaiah: No, this Akari Motors invites there and Bangladesh there apart from that 11000 Crores of that another 1500 Crores that chances are high.

Siddharth Oberoi: What was the order intake in the first seven, eight months till date April to now?

S Kodandaramaiah: Yes, it is 1550 Crores.

Siddharth Oberoi: 1550 Crores Sir.

S Kodandaramaiah: Yes.

Siddharth Oberoi: So, you are expecting in the next four months this to double basically?

S Kodandaramaiah: Yes.

Siddharth Oberoi: Also, regarding debt I wanted to ask the debt currently long-term plus short-term is 410 Crores.

Jami Satish: Yes.

Siddharth Oberoi: Is there any other part of the debt that is not classified in this?

Jami Satish: Only these two are there .

Siddharth Oberoi: So, no other financial liabilities that can be classified this is taken of balance sheet or is the elsewhere.

Jami Satish: No Sir.

Siddharth Oberoi: Also, that your receivables have spiked for the first half so are you planning to borrow more in the reminder part of the year?

S Kodandaramaiah: Actually, this as we discussed it is two projects from one is Andhra Pradesh and Telangana that made us to utilize more of working capital limits which we have already taken so the idea is say either to keep at this level or slightly to bring down so if the realization happens.

Siddharth Oberoi: So, you took this debt for those Andhra projects which did not materialize so you have kind of planning other to reduce it or to use it somewhere else is that correct?

Jami Satish: Yes, the plan is to reduce the debt level with realization Andhra Pradesh amount else the numbers will remain more or less same.

Siddharth Oberoi: You will use this working capital at other projects, right.

Jami Satish: No, the idea is that if AMTZ realization happens there may be slight reduction in the working capital limit and if there is a delay then this amount remains more or less the same.

Siddharth Oberoi: That is all from my side thanks.

Moderator: Thank you. The next question is from the line of M.S. Arun from PM Research. Please go ahead.

M.S. Arun: Sir regarding that the FY2020 outlook now I had missed you that the erection number could you please repeat it what is the target for erection?

Jami Satish: Initially we thought around 900 Crores plus that is what we envisaged but there is slight delay from Maitree because the order book additions happened in later stage and in Saudi and Oman we thought of adding some orders, that is also getting delayed hence there could be a slight reduction in terms of the erection target.

M.S. Arun: How much Sir, how much is the reduction target now?

Jami Satish: For the first half we did close to 350 to 360 Crores so this number should be in the range of 800 to 900 Crores for the whole year.

M.S. Arun: Still it would be higher than the last year okay also it will do about 750 Crores okay.

Jami Satish: Yes, so that will come mostly in this civil line because last year we did close to 840 Crores that all scenario that will not happen now that will slightly come down electrical and O&M of course it will go up.

M.S. Arun: Since that we would be likely to do end up that 750 Crores or 730 Crores Sir?

Jami Satish: Last year it was around 840 Crores plus from civil.

M.S. Arun: And but it would be made up by electricals.

Jami Satish: Yes.

M.S. Arun: Thanks a lot.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Chirag Muchhala for closing remarks. Over to you!

Chirag Muchhala: Thanks, I would like to thank the management for giving us the opportunity to host this call and to all the participants for their presence. Sir would you like to make any closing comments?

Jami Satish: The good part for Power Mech now I can say that in last three years we have been building presence in railway, IOCL, petrochemical and some of the infrastructure construction and now it is helping us to quote for slightly larger size of projects. If we see the ticket size of railway and Sadalpur and the Machilipatnam to Gudivada railway project all these projects are in the range of 350 to 400 Crores but now these projects with completion and substantial completion helping Power Mech to bid for projects size of 750 Crores to 800 Crores .

Now we are working on couple of projects which are slightly larger in size and beyond 800 Crores .We are also working with the help of some of the JV partners and if any of these projects gets materialize then Power Mech definitely will change in a positive way. We are working towards it and maybe in next one or two months we will come forward and will update all these developments.

The environment is little challenging and it is very important that when we work and we should get paid but if there is any delay in payments there is strain on the cash flow hence we need to have balancing efforts and conscious efforts. . If at all we need to lose may be 5, or 6 Crores we need to write-off if all goes in a negative way but otherwise we still hope that that amount we should be able to realize from the Andhra government so apart from that the business the plan what we envisage all are on track.

In international a lot of traction is happening. Though there has been some delay in the Saudi and Oman market, we are doing good in Bangladesh and Nigeria. This time the tax has helped a lot to push our PAT and this helped us to save the advance tax also may be FY2020 we will have a saving of close to 14 Crores -15 Crores plus of advance tax so that will add to the cash flow. So this is a positive side for Power Mech. Let us catch up next quarterly call, and hopefully we will come up with some good news. Thank you very much for all your confidence. Thank you.

S Kodandaramaiah: Ramaiah again. I think on the positive side , there are some conscious efforts that is there and first half the weather also had a an impact on the turnover and in the ETC jobs.. . Then order booking focus was there at 4000 Crores for the current year with acheivemnet of Rs 1550 Cr, and balance 2500 to 3000 Crores opportunity is there, and what the focus now is that we want to be selective on customers where we do the work . I think that is the most important take on this that we are focusing on that. That is how we would like to carry on. Even at the end of the year based on the projections perhaps next year also we should be able to maintain the reasonable growth. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Nirmal Bang Equities that concludes today’s conference call. Thank you for joining us. You may now disconnect your lines.