



“Engineers India Limited Q2 FY 2016 Post Results Conference Call”

November 05, 2015



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- Moderator:** Ladies and gentlemen, good day and welcome to the Engineers India Limited Q2 2016 post results conference call, hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal 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 Ms. Ankur Sharma from Motilal Oswal Securities. Thank you and over to you Sir!
- Ankur Sharma:** Thanks. Good afternoon ladies and gentlemen and welcome to Q2 2016 post results earnings call of Engineers India. We have with us today from the management team, Mr. Ram Singh – Director (Finance), Mr. R. P. Batra – DGM (Finance and Accounts), Mr. Vinay Kalia - DGM (Marketing) and Mr. Rajneesh Malik –AGM (Marketing). I would like to handover the floor to the management for their initial comments and then we can have the Q&A session. Over to you Sir!
- Ram Singh:** Good afternoon everybody. Welcome to the earning call. You would have seen the results, which we announced yesterday. To give you a brief overview, the order inflows during the first six months has been Rs.623 Crores. They are 100% consultancy orders, out of which overseas is Rs.251 Crores and domestic is Rs.372 Crores. The order book as in September 30 is Rs.3456 Crores, out of which consultancy is Rs.2683 Crores and turnkey is Rs.773 Crores. That means 78% of the order book is in high margin consultancy sector. The order inflow during second quarter has been subdued and I think the investment cycle is taking a little longer time, so timing is an issue. As far as the Consultancy margins are concerned, till we get large orders, margins will continue to remain weak we are targeting certain big orders, so let us hope once these order materialise then things will pick up. So we open the floor for question and answers.
- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Good evening Sir. Sir first question is on, there is an considerable improvement on the EBIT margin in consultancy business in the quarter, do you think it is sustainable because last two quarters it is being coming down?
- Ram Singh:** What has happened is, there is a significant movement in the overseas revenue, so if you see my H1 revenues from overseas they stand at Rs.155 Crores, vis-à-vis Rs.92 Crores for the last year, so this has driven my growth in the consultancy revenue and so this is one major

factor, which has resulted in the improvement in the consultancy revenue and see this is the result of our, aggressively going overseas in a big way. So going forward you will find increasing growth coming from overseas market and as I shared with you in the beginning the overseas order book has further gone up and now it stands at Rs.1424 Crores now. So in fact overseas order book is higher than the domestic consultancy order book now.

Madan Gopal: If you can give the order book details overall and you said overseas is Rs.1400 Crores right?

Ram Singh: Rs.1424 crores is the overseas and domestic is Rs.1259 crores to be precise.

Madan Gopal: Okay and Turnkey?

Ram Singh: Turnkey is Rs.773 Crores. There were no new Turnkey orders during H1.

Madan Gopal: Consultancy.

Ram Singh: Consultancy, domestic is Rs.1259 crores. So total consultancy is Rs.2683 Crores.

Madan Gopal: Okay and in terms of order inflow in the first half?

Ram Singh: First half order inflow is Rs.623 Crores and the entire Rs.623 Crores is from consultancy, out of this Rs.623 Crores, overseas comprises of Rs.251 Crores.

Madan Gopal: Was it a single order or some?

Ram Singh: No these are small value orders. See basically let me give you the break up of this order inflow, we got an order from Delhi Jal board. Delhi Jal board the order value size is Rs.48.75 Crores. This is a consultancy order. Then there has been Bombay Port Trust they have given order for roughly around 12 Crores of the fifth oil berth, Kochi Refinery, Propylene Derivative Project for licensor selection and pre-project activities, they have given us order for Rs.11 Crores, so these are small value orders.

Madan Gopal: Sir if you can take us through like what is outlook in terms of new projects coming up in terms of new orders for us over the next one year period and also little medium term perspective next three years, how do you see large refinery projects coming up in India as well as our plans internationally that will be helpful Sir?

Ram Singh:

See in terms of probability and the nearer time horizon, the first project, is Bina Refinery expansion. So Bina refinery expansion has two parts, one is they are expanding from 6 to 7.8. We are already doing the pre-project activities and the work is expected to start by the end of this financial year, so we hope to get PMC order for the expansion to 7.8 million tonnes.

The second part of this expansion is by 9 million tonnes, which is expected in the middle of next financial year, somewhere around second or third quarters. So this 9 million tonnes could be a big, assignment so this is the first opportunity. The next opportunity is the Vizag Refinery expansion by 9 million tonnes. I think there are issues on the environmental clearance point of view, so depending upon how fast HPC is able to get the environmental clearance, the project could come up, so this also hopefully should come by may be say March or early next financial year. So this is the second opportunity.

The next one is the Kochi Refinery of BPCL. They are setting up a propylene derivative petrochemical project, so currently we are doing the pre-project activities. The implementation hopefully should start in the middle of next year. So may be in the second quarter we could see this BPC taking a decision of this. Then the next opportunity is Numaligarh Refinery expansion. Their board has already cleared the expansion by 6 million tonnes, but this involves capital subsidy from the Government of India, this is contingent upon they getting the support from the government.

The next opportunity, is the expansion of Barauni Refinery by 6 million tonnes and also there is a petrochemical integration, energy conservation projects, residue upgradation so that can also materialize. Then IOC has made announcement that they want to put up a refinery in the west coast, so that is a little bit medium term in the horizon. As you would have heard from the press reports IOC has made announcement of Rs.175000 Crores capex in the next seven years and out of which Rs.50000 Crores they have allocated for Brownfield expansions, so as a part of that Brownfield expansion, once Paradip is complete, we are confident we will start with the expansion of Panipat and Gujarat Refinery because their IRRs are very good, so Gujarat could go up to 18 million tonnes and Panipat could go up to 20 million tonnes. These are in the refining space. These are some of the likely opportunities.

Madan Gopal:

Other sectors Sir?

Ram Singh:

One more opportunity is Euro-V and Euro-VI projects. Government has already announced that Euro-V and Euro-VI will be introduced from April 2020. So I think they got a lead-

time of four years to start their projects, so hopefully this could be another big opportunity for us.

- Madan Gopal:** How big this can be Sir; you would have made some assessment right?
- Ram Singh:** Yes, we done an assessment, the capex could be around Rs.28000 Crores.
- Madan Gopal:** And you think to meet the deadline when the project should start execution, sorry the project should start?
- Ram Singh:** This involves a reduction in the sulfur from 50 PPM to 10 PPM, so this, a lot of severity in refining operations will be there and I think number of units both in the MS block and the diesel block will be required, so I think they should start this, at least approval in 2016.
- Madan Gopal:** Awards might be in end of FY 2017?
- Ram Singh:** During FY 2016-2017, so that they take around two to three years to complete the project.
- Madan Gopal:** So you expect FY 2017 order to come in?
- Ram Singh:** Yes, it should come from this. See like Euro-IV we are doing for BPC, both their Bombay Refinery as well as the Numaligarh Refinery.
- Madan Gopal:** Sir in this they have to, you expect consultancy sort of an order, right?
- Ram Singh:** This is consultancy, you are correct.
- Madan Gopal:** Is there a possibility of some of them directly doing it or you will be playing a role on?
- Ram Singh:** Definitely we will be doing the, either the PMC or the EPCM role.
- Madan Gopal:** What will be the portion of our consultancy revenue from this, if the total capex is Rs.30000 Crores.
- Ram Singh:** Typically this range from around 4% to 6% and then I think one LSTK job of around Rs.400 to Rs.500 Crores, these also expected during this financial year. So these opportunities, only the question is how fast the oil companies move on these projects. So if they get the approval fast, then the award can be much faster, but again in the first six

months the conversion of these orders into revenues is very less, so in fact revenues will come after one year.

Madan Gopal: On the export front what is happening Sir?

Ram Singh: Exports, we have decided to go very aggressively, so you have seen some results and going forward, you will see this results multiply in a much bigger way, we have strengthened our Abu Dhabi office. We are going in a big way in other countries also, what we have done in India hopefully you will see the similar results happening in the developing countries, oil and gas sectors then going forward in natural gas sector once the availability issues are resolved, I think gas share in the energy basket, which is currently around 7% could go up to so this will give a huge capex investment in LNG terminal in cross country pipeline, city gas distribution network, so there is a huge potential which is available in the gas infrastructure. The next sector other than oil and gas sector in the smart cities, the government had invited bids, so we have been successful in two cities in Rampur and Moradabad and then we are in the advance stages with Orissa government for work in nine cities, so we will be preparing the DFR, doing the bid management.

Madan Gopal: What will be our, for example take on Dhampur and if you can explain what, in the next say two, three years you will be doing in this project?

Ram Singh: Initially we are supposed to give them the city development plan, so once the city development plan is given to them, then they will award the detailed work. So the first stage is the small value work, but the second stage that the work quantum will increase. I was mentioning you with Orissa government we have the capex project size is roughly around Rs.1200 Crores, so let us say, these are the initial opportunities, so going forward in a longer timeframe this could convert into bigger opportunities.

Madan Gopal: Then on the fertilizer sector Sir?

Ram Singh: Fertilizer sector, actually we already doing work for Ramagundam, we have our EPCM contract for Rs.190 Crores and then government has, issued tenders for three fertilizer plants. So once the selection and award is done then we will pitch in for our services in these three projects also. Next diversification sector, a lot of things are happening in water and waste management, I have shared with you we got a recent job from Delhi Jal Board then we had a meeting with the Uttarakhand Government, we are, I think setting up two sewage treatment plant at Haridwar and one more place I think, so two plants of 40 million

liters per day capacity and 7.5 million liters per day capacity, so these will be coming up and then we are also setting up, sewage treatment plants in Uttarakhand.

Madan Gopal: What is the capacity you said the previous one, how many million?

Ram Singh: 40 million liters per day. That was Haridwar work and the other one was 7.5 million liters per day.

Madan Gopal: This is the small project, considering the...

Ram Singh: This is the beginning; once we start the work then it gets replicated very fast. So the intention is to diversify to whatever extent we can do to tide over the slow down which we are facing at present now.

Madan Gopal: Will there be increase in manpower during this period?

Ram Singh: No, there would not be any increase in the manpower. If required, we may outsource the specialist in certain areas, but there would not be an increase in the manpower.

Madan Gopal: Thank you Sir. Thanks for taking my questions. Wish you best of luck.

Moderator: Thank you. The next question is from the line of Ranjeet Shivram from B&K Securities. Please go ahead.

Ranjeet Shivram: Congrats on good set of numbers. So just wanted a small clarification like our other unallocable expenditure when I see the last two quarters, it is higher around Rs.28 Crores and Rs.26 Crores compared to the previous year, so anything specific in this?

Ram Singh: Yes, you are right, unallocable expenses we have made a small adjustment earlier depreciation was being allocated against consultancy segment profit. Since assets are common to both the segments, so we have now changed and depreciation is now a part of the unallocable expenses, so that depreciation roughly Rs.14 Crores for this H1 and Rs.9 Crores for the last years H1 has gone into unallocable expenses that is why you see the figures are higher, otherwise these expenses are strictly under control, there is no increase in the expenses.

Ranjeet Shivram: And the higher depreciation...

- Ram Singh:** Higher depreciation, see we have a policy of 100% depreciation for software up to Rs.5 lakhs, so there has been some purchase of software, so it is a one time, there would not be any increase in the next H2.
- Ranjeet Shivram:** Sir in terms of LSTK and other projects will there be, was there any provisions this quarter or going forward, will there be any provision because couple of quarters we had see a lot of provisions, so...
- Ram Singh:** LSTK what had happened in one of our projects at CPCL there we were not getting the change orders and there has been some cost overrun, so both the cost overruns and delay in getting the change orders and we had to make provisions last year, but we are fully provided for the all losses and there is nothing additional in the pipeline, but there will be only a positive, the change orders will now come, so basically it will improve the position only, there would not be any negative as far as the turnkey is concerned.
- Ranjeet Shivram:** Because when I look at our annual report we have this provision for expected loss of fund?
- Ram Singh:** So out of that we have provided Rs.75 Crores, Rs.38 Crores has already been reversed.
- Ranjeet Shivram:** So Rs.58 Crores has been reversed already?
- Ram Singh:** Rs.38 crores reversal means it has, gone to expenditure. But change order nothing has come, so in this quarter we have not taken any change orders. See last time we told we were expecting some change orders in the consultancy as well as in the turnkey, but in consultancy the client has decided, but the communication from the client has still not come, so we have not accounted for that change order, and for this turnkey things, change order has not come so far.
- Ranjeet Shivram:** So if I understand correctly we had provided Rs.75 Crores and we have taken a Rs.38 Crores under expense, so still some...
- Ram Singh:** No, not under spend, see the, as per the accounting policy, if I anticipate any loss, I have to provide that, make a provision upfront, although the loss will come sometime in future, but we make a provision upfront, so this is what happened last year. We anticipated a loss in this particular project, we then immediately provided for 100% of the loss. We created a provision. Now as the project has progressed, the actual expenditure has taken place, so since the actual expenditure is taking place, the provision is getting reduced, that Rs.75

Crores, but there is no reduction in the loss, reduction in the loss will only come from the change orders.

Ranjeet Shivram: So when is that expected?

Ram Singh: That is expected hopefully in the third quarter.

Ranjeet Shivram: So third quarter that project is getting completed, so the final...

Ram Singh: The project will get completed sometime in the first quarter of next financial year.

Ranjeet Shivram: So this change orders will result in some of the provision getting write back.

Ram Singh: You are right. Some other provisions, which we have provided, will get reduced. So it will be positive as far as turnkey segment profits are concerned.

Ranjeet Shivram: We also do a provision for contractual obligation, so if you can help us with how much was that for this first half, provision for contract?

Ram Singh: First half, we have written back the contractual provision to the extent of Rs.31Crores, so that has been written back.

Ranjeet Shivram: So Rs.31 Crores of contractual obligation we had written back.

Ram Singh: Correct.

Ranjeet Shivram: So that means that, that much of benefit we had in our margins?

Ram Singh: Rs.31 Crores

Ranjeet Shivram: So Rs.31Crores is the benefit we got because of this write back in our margin.

Ram Singh: Correct.

Ranjeet Shivram: And is there anything further expected in second half?

Ram Singh: Yes, something is expected.

Ranjeet Shivram: Okay Sir, I will join for further questions.

- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC. Please go ahead.
- Bhoomika Nair:** Good evening Sir. Sir just to continue from the last question on this change order issue, so what we are saying is last year we made a provision of Rs.75 Crores, actual expenditure till date is Rs.38 Crores?
- Ram Singh:** No, I think we are mixing up.
- Bhoomika Nair:** Rs.75 Crores of provision that we expected, so that is what we did last year. Sir the Rs.38 Crores is what Sir?
- Ram Singh:** There is no change in that, we have done some work beyond the scope, so I would recognize the revenues from that additional scope, only once the client approves the change orders. So those change orders we were expecting that these are not come so far and they have not been accounted for.
- Bhoomika Nair:** So this Rs.38 Crores is nothing that we should...
- Ram Singh:** No, do not get mix up with that. That is only shifting from provision to the expenditure.
- Bhoomika Nair:** Sir you said PMC, there were some change order, which the client has approved, but not yet communicated, so what is the quantum out of the Rs.75 Crores?
- Ram Singh:** See in consultancy we were expecting reasonably good change order, but change order, the board meeting of the client had taken place sometime in middle of September, but they will be communicating change order shortly.
- Bhoomika Nair:** So out of 75 Sir, I mean, what is the PMC...
- Ram Singh:** No, this is consultancy 75, it is turnkey, but...
- Bhoomika Nair:** Okay, only on the CPCL bit and consultancy what we are expecting the quantum of change order?
- Ram Singh:** Getting change orders is a very, very long drawn process. So one of the change orders, hopefully which we are expecting in next quarter, . Second one is after the government approval in another project.

- Bhoomika Nair:** Correct, then it will come.
- Ram Singh:** Then we could get the change order, both the change orders are quite good in numbers, but I cannot account for the same unless I get the formal communication.
- Bhoomika Nair:** Correct, on what is exact amount etc?
- Ram Singh:** Correct.
- Bhoomika Nair:** Sir in, you mentioned earlier that HPCL, Vizag they have to get an environmental clearance, typically how long does that take to get the clearance?
- Ram Singh:** Can you repeat it? I could not hear you properly.
- Bhoomika Nair:** HPCL, Vizag.
- Ram Singh:** Vizag, environmental clearance, hopefully it should be come in this financial year.
- Bhoomika Nair:** We are also hearing some news on Barmer may get revised?
- Ram Singh:** We are also hearing and I think as a part of HPC's plan they have, I think made a provision of Rs.45000 Crores capex, let us hope this thing materializes.
- Bhoomika Nair:** Sir, smart city order that you spoke about Rampur, Moradabad and Orissa, etc., what would be typical order size in this space for us?
- Ram Singh:** Initially it will very, very marginal.
- Bhoomika Nair:** Okay, it will be very small, okay, but as work expands, what can be the potential that we could get?
- Ram Singh:** As I told you these are the initial city development plans, so it is sort of a prefeasibility report. Then once the state government finds it viable then we will draw the detailed plan and then implement it. Government, has launched very ambitious plans for the smart cities. So hopefully this could be a good opportunity and may be we can get somewhere close to Rs.50 Crores of order inflows in the medium term.
- Bhoomika Nair:** Sir we were guiding for, something like almost Rs.2000 Crores kind of order intake in the current year?

- Ram Singh:** That is the target. See the target was basically Rs.800 Crores from small value orders, so out of which Rs.633 we have already got so far. So we were hoping some big-ticket orders, each order big order would be in excess of Rs.500 Crores. It is taking time, so I think we will have to have some little bit more patience and the timing is the issue in this, I think it can come or it can get shifted to next financial year.
- Bhoomika Nair:** Sir in this obviously one is Vizag, one is BPCL, I just?
- Ram Singh:** We will announce it at the time when we get it.
- Bhoomika Nair:** Sir anything on the international side of large size, obviously we have been getting Rs.50 Crores, Rs.100 Crores type or order?
- Ram Singh:** We will make the announcement at the appropriate time.
- Bhoomika Nair:** Lastly Sir any guidance in terms of revenues for both the segments and also margins?
- Ram Singh:** The project announcement we were hoping some, like this Vizag expansion and certain other big projects to come those have got delayed. I think it could be more or less flat. The RBI has cut down the interest rates recently, so this will have an impact on our interest income and earlier we were also investing in fixed maturity plan, so we are as per our accounting policy we were taking account of the dividend, which we get on this scheme on receipt basis. Now FMPs have been discontinued because of the losing the tax disadvantage. Everything is an interest income on accrual basis. So both with the reduction in the interest rates for the bank, our other income is likely to come down by Rs.30 Crores.
- Bhoomika Nair:** In the current year?
- Ram Singh:** So we have to factor that while making the projections.
- Bhoomika Nair:** That is helpful. Sir one margins would it be fair to say that there would be some improvement in consultancy?
- Ram Singh:** Since big projects are not there, there is a very aggressive competition for this small value projects, these players are quoting significantly lower than even their cost, which is not sustainable. In this scenario, the margins are under severe pressure.
- Bhoomika Nair:** Okay one can say flattish margins in that sense.



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- Ram Singh:** Margins will improve only once we get the big orders.
- Bhoomika Nair:** For us the pay commission will set in sometime in.
- Ram Singh:** Pay commission for central government is from 2016 for public sector officers it will come only from Rs.2017, but no commission has been set up so far, so I do not know when the commission will be set up and then they will take the time to give the recommendation and then the government will take a decision on them. So it is going to take time.
- Bhoomika Nair:** All the best and wish you all the best. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Rajendra Mishra from IDFC. Please go ahead.
- Rajendra Mishra:** Good evening Sir. I had a question on smart cities which got answered, so just wanted to add on that when you.
- Ram Singh:** Can you speak a little louder we are not able to hear you?
- Rajendra Mishra:** I had couple of questions from the smart city angle, which you already partly answered to Bhoomika. Just taking it further to build that capability, would you draw on your internal resources, do you think you will have to build up entire team around that, as you take more city development plans?
- Ram Singh:** As I told you if additional resources are required we will be outsourcing those resources, so depending upon the build up in this industry we will be taking a view accordingly. Currently, we do not; we feel we will be able to manage with the existing staff strength now. We may take some specialists if required.
- Rajendra Mishra:** Would you go for, because there is already some consultants in that space, so would you go for some acquisition or something or it is too far at this point of time?
- Ram Singh:** It is too early to say, I think collaborative approach will be much better. We will collaborate with the experts in these areas.
- Rajendra Mishra:** These nine cities that you spoke about is, what stage it is, I mean, so how does it work. You are nominated for preparing the city?



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- Ram Singh:** We are in the advance stages of dialogue with them, so state government once they take a decision then the job can come to us and then we will be doing all their activities.
- Rajendra Mishra:** This was with cities.
- Ram Singh:** This is Orissa state.
- Rajendra Mishra:** Orissa State. And who would be competing with in terms of this advanced stage of discussion who else would be in the fray for that?
- Ram Singh:** Let us wait for some more time.
- Rajendra Mishra:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Misal Singh from Religare Capital. Please go ahead.
- Misal Singh:** Good evening. Sir just on these other prospective orders that you are talking about, what could be the average ticket size in this case?
- Ram Singh:** As I told you, currently we have been getting small value jobs, which have aggregated to Rs.633 Crores, which we have shared with you, but there are some big opportunities like, I told you Bina Refinery expansion, then Vizag is a big project, then couple of overseas orders also could be big order, so it all depend on the materialization of this big orders.
- Misal Singh:** So Vizag is a 9 million tonne expansion?
- Ram Singh:** Yes, it is a 9 million tonnes expansion. The issue there is the environmental clearance that issues have to be resolved?
- Misal Singh:** So what is your addressable market generally in this kind of expansion like per million tonnes if?
- Ram Singh:** It depends on the complexity of the project, so if it is a simple primary unit then the quantum of work is much less, but like in Kochi it was a primary distillation unit plus the secondary facilities, so in Kochi it was a 6 million tonne expansion and our fee was Rs.720 Crores that was in 2012. So these are typically big size orders.
- Misal Singh:** So when you say Bina is actually, you said is it 6 to 7.8 million tonnes expansion?



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- Ram Singh:** That is a small expansion, 6 to 7.8, but the bigger one, which we are talking, is the 9 million tonnes expansion.
- Misal Singh:** So then when Bina is about what roughly.
- Ram Singh:** It will be roughly around 17 million tonnes after the full expansion if a project, which will improve the supply demand for BPCL also.
- Misal Singh:** The probability you are saying is that probably Bina should come through this year, sometime later this year?
- Ram Singh:** Bina should come first and may be Vizag expansion can also come.
- Misal Singh:** So basically would it be fair to assume Vizag can come in the first half of next year?
- Ram Singh:** Yes, hopefully.
- Misal Singh:** And Kochi.
- Ram Singh:** Also expansions of refineries at Panipat and Gujarat.
- Misal Singh:** That should be in H1 or H2.
- Ram Singh:** Yes that should in H1.
- Misal Singh:** In terms of your consultancy business, so I mean if capacity utilization right way to look at I mean, how that is impacting the margins, capacity utilization meaning the number of consultants that you have and who are on the bench and stuff like that?
- Ram Singh:** See as far as my cost is concerned they are more or less constant, so the utilization level get low, if the major projects are not there and they will improve with once we get the major projects. As far as margins are concerned there is a very aggressive bidding by the players in the markets for small value jobs. So the back offices of the multinational they are quoting really low numbers, but margins basically are good for expansion or a grass root refinery.
- Misal Singh:** Sir, currently the work force that you have till what level can the consultancy revenues go with this work force.

- Ram Singh:** So, we have already done 1200 Crores plus with the same workforce. So we can scale it up. That is not the issue.
- Misal Singh:** I am just trying to understand that in consultancy margins now we are at about roughly 24% to 25%, so you know what is the trajectory for this over the next two years and how far are we from the margins that we used to have when you were in 2012-13?
- Ram Singh:** If you see my earlier margins they were based on execution of Bina Refinery, Bhatinda Refinery, MRPL expansion, and I was doing four petrochemical plant, so that was four to five year cycle then we were doing all these projects so that grew my revenues, and cost being more or less constant, it improved my margins. So once the projects are over, there has been a slow down in the last couple of years, so hopefully I think things will improve. So, once the project starts coming under execution then the margins will definitely go up, but till that happens margins will remain under pressure.
- Misal Singh:** Sir, for example if we assume that Bina comes through some time later this year and the execution starts in the second half of fiscal 2017 and execution ramps up somewhere in FY 2018?
- Ram Singh:** The impact will come from H2 onwards.
- Misal Singh:** H2, so let us assume that the execution ramps up by FY 2018 in the segment on account of Bina?
- Ram Singh:** Margins will be better.
- Misal Singh:** So how much better can they get?
- Ram Singh:** It depends upon how many big orders we can get. We are doing Dangote order, which is a big-ticket order. So there hopefully the execution will further go up, the construction phase once it starts maybe next year and the following year we can get sizable revenues from that project. Then this Bina thing coming and Vizag also coming then the margin could look much better, if all these things happen.
- Misal Singh:** Sir, it could be probably at the mid point of what it is currently and quarter?
- Ram Singh:** It is very difficult. Please appreciate. The cost structure will not increase that much. As I told you we can scale up with the existing manpower. So the incremental cost will not be very significant, but the incremental revenues could be significant, so if the incremental

revenues are significant compared to the incremental cost, margins can go up, but this all depends upon the timing of these projects starting.

Misal Singh: Thanks a lot for this.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Good afternoon Sir. Just to clarify on BPCL-Bina refinery you said they are basically split into two parts, and the total opportunity could be 750 to 1000 Crores. So the phase I is pre-project work, which I think we were to get for?

Ram Singh: We are already doing the pre-project activity for 6 to 7.8 million tonnes and the next 9 million tonnes is coming on the independent plot. These two projects are independent and they are not on the same land simultaneously.

Manish Goyal: So the second phase is from 7.8 to 9 million tonnes?

Ram Singh: No, second phase is new grass root unit of 9 million tonnes.

Manish Goyal: So that will be your big order?

Ram Singh: Yes, that is right.

Manish Goyal: So this phase I order which we are expecting should be how big, 100 Crores?

Ram Singh: Slightly more than that or could be 100 Crores.

Manish Goyal: The new refinery could be in the range of say 700 to 800 Crores?

Ram Singh: Yes, let us see. They definitely have to be negotiated.

Manish Goyal: Sir, on these contractual provisions write-back, what was the amount for this Q2?

Ram Singh: First half it was 31 Crores.

Manish Goyal: 31 Crores of consultancy and you said?

Ram Singh: This is for total.



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- Manish Goyal:** 31 Crores in the first half?
- Ram Singh:** Yes that is right.
- Manish Goyal:** Can you give the number for second quarter?
- Ram Singh:** Second quarter is around 15 Crores. **Manish Goyal:** 19 Crores, and this we are now adjusting in the other expenses instead of earlier showing as other income?
- Ram Singh:** It is getting adjusted against the expenses, against the provisions for contractual obligations.
- Manish Goyal:** And this LSTK order you mentioned another likely to get 400 to 500 Crores order this we are expecting in the second half of this year?
- Ram Singh:** That is right.
- Manish Goyal:** And this would be pertaining to what?
- Ram Singh:** We will announce it when it materializes.
- Manish Goyal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rajendra Mishra from IDFC. Please go ahead.
- Rajendra Mishra:** Thank you for taking my question once again. Just one question on this fertilizer section that you said, the government had announced recently that they want to revive four fertilizer plants.
- Ram Singh:** Three plants, they have put it on auction.
- Rajendra Mishra:** So any progress there? Anything that can materialize over the next six to 12 months?
- Ram Singh:** Very difficult to say, but hopefully maybe in the next call, we will be able to share the developments in this sector. **Rajendra Mishra:** If at all, who would be the nodal agency in that?
- Ram Singh:** Department of Fertilizer is the nodal agency.



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- Rajendra Mishra:** So maybe I will speak up off line and get some clarity. Thank you.
- Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investments Managers. Please go ahead.
- Viraj Kacharia:** Thank you for the opportunity. Just had a couple of questions. First is on the current order book. If we look in overseas has there been any indication of deferment or cancellation or further phasing out of implementation of the current order book in overseas?
- Ram Singh:** The major component in this overseas order book is from Dangote Refinery. So there the activities of going at a very, very past pace. The execution has really picked up and this has got reflected in if you see my revenues in the first half, they have increase from 92 Crores last year to 155 Crores, almost a two-third increase. So going forward I think the numbers should improve further.
- Viraj Kacharia:** But even when you are bidding for new projects, because what we are seeing is both the global oil and energy majors they are cutting down on foreign investments and even we are seeing a further cut down in investments in Middle East countries. What kind of order awards, which we are seeing from these countries. So, if you can throw some color on that?
- Ram Singh:** The major impact of the fall in the international oil prices is on the oil exploration companies. As far as refineries are concerned, refineries basically get a margin in processing the crude oil and selling the petroleum products. It is basically the difference between the product prices and the raw material price, which is crude oil. So, as long as the differential is good enough they will keep on putting up the projects and the IRRs of these projects are quite robust. So, of course the liquidity will be an issue, if it is an integrated company, but first see if you take these standalone refinery projects there may not be much of an impact.
- Viraj Kacharia:** Now, again in exports on the margin side, you said you are looking on exports as a very big avenue growth, so on a margin side, our export margins at the corporate level, which we enjoy in the consultancies again?
- Ram Singh:** Margin again is a function of one is the size of the order, second is the customer, so and third is the level of competition.
- Viraj Kacharia:** Broadly even for large projects, is it reasonable that even in exports say for Dangote projects?

- Ram Singh:** Broadly the margins from overseas will be in line with the domestic margins.
- Viraj Kacharia:** You said the margins in overseas are by and large similar as ones, which we enjoy in large projects in domestic?
- Ram Singh:** Yes, they are broadly in line with the domestic margins.
- Viraj Kacharia:** Now if we again see on the another large player McNally Bharat they bagged around 2000 Crores worth of order book and they indicated that EIL is going to be a technology partner, it is a project where we do Oman Refinery so any big revenue share we are expecting from there?
- Ram Singh:** I will just give it to Vinay. He will just answer your question.
- Vinay Kalia:** Can I have your question again please?
- Viraj Kacharia:** Recently an India player McNally Bharat they bagged around 2000 Crores worth of order book for an Oman Refinery and they indicated that EIL will be the technology partner for them. So, is there any big revenue contribution to expect from there?
- Vinay Kalia:** It is still under evaluation stage. It is still not a project, which has gone into execution. So it is not that it will contribute immediately to our order book.
- Viraj Kacharia:** Even if it were to, what will be the size?
- Vinay Kalia:** I do not think, if it is a technology selection by us, then it is a small assignment. Then it is not a big assignment. It would be a few Crores.
- Viraj Kacharia:** Again, if we see on the domestic side, basically what we are seeing that the projects and awards are actually pushed back for by another six to eight months and if any implementation were to occur would be reflected in H2 FY 2017. So is that understanding right that the growth would be occurring in FY 2017 or 2018 onwards?
- Vinay Kalia:** Any orders which we get in the large value orders, like the Greenfield projects the impact on the revenue cycle will occur after say about two quarters. Typically initially the billing cycle in these projects is slightly slow and then it picks up.
- Viraj Kacharia:** Just two more questions, one is on the provision, you said that the 75 Crores provisional write back, which we expect from LSTK how much would be add on from consulting?

- Ram Singh:** Let me clarify on this. The provisions, which we have created last year for 75, Crores anticipated losses that remain as it is. Only thing is now the project has come into the final stages, so the provision of anticipated losses is getting converted into the actual expenditure and actual losses.
- Viraj Kacharia:** So there should be some write back at the end of the project, right?
- Ram Singh:** There should be write back in the form of change orders, so we are in the final stages of finalizing the change orders with the clients. Hopefully the next quarter we should be able to give you the numbers.
- Viraj Kacharia:** So 75 Crores is from LSTK and from consulting how much roughly it can be, a rough range?
- Ram Singh:** In turnkey, the exact quantum it all depends upon what the client ultimately approves. It is premature to take any number at this stage, but we have not recognized anything. So any number, which comes that, would be upside.
- Viraj Kacharia:** The provisional write back for contractual obligation, it is in a normal case of the business, because every year we do new projects we have?
- Ram Singh:** Once the project is over, and if I do not incur any expenditure then at the end of the project, I write back the provision.
- Viraj Kacharia:** So, for the LSTK which we were expecting another 400 to 500 Crores worth of order, currently we have I think around 900 Crores.
- Ram Singh:** My order book for the turnkey is only 700.
- Viraj Kacharia:** So, bulk of it should be executed in this year?
- Ram Singh:** Maybe 50% will get executed this year.
- Viraj Kacharia:** This is in addition to 400 to 500 Crores which may receive by the end of this year basically?
- Ram Singh:** In 2015-2016 so far there has been no turnkey order inflows.

- Viraj Kacharia:** On the cash element someone asked the question on receivables which have increased by around 200 Crores and cash element has stopped down. So is it normal part of the business cycle?
- Ram Singh:** What happens is certain outstanding they take a little bit longer time when the case of time extension and other cases are there? so hopefully in the next one or two months, that will get over and then the outstanding will come down.
- Viraj Kacharia:** On smart cities these kind of project what is the typical margin structure? Is it somewhere at the current level, which we enjoy in consulting?
- Ram Singh:** Margins for which segment?
- Viraj Kacharia:** For smart city projects?
- Ram Singh:** Smart cities, you know, it is a new entry. So new entry strategies the margins will be very, very low.
- Viraj Kacharia:** Considering that we maybe open to further outsourcing any additional?
- Ram Singh:** Correct, so the margins are going to be very, low it is an initial entry. For initial entry into any industry we will not focus on the margin, but on getting the entry.
- Viraj Kacharia:** On the Nell Blocks, we have a co-ownership in two Nell Blocks, so any indication you can provide that how much we will be likely share of capex from our side?
- Ram Singh:** See we have taken 20% share in this block, have started the exploration stage, so depending upon the progress I think there would not be any significant expenditure in this financial year.
- Viraj Kacharia:** That is all from my side. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Ankur Sharma for closing comments. Thank you and over to you Sir!
- Ankur Sharma:** Sir, would you like to make any closing comments from your side?
- Ram Singh:** Ankur, thank you very much. Thank you all the participants for their time. Thank you very much.



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Ankur Sharma: Thank you so much Sir. We would like to thank everybody who has participated on the call and especially to the management of Engineers India for taking out time post the results. Thank you so much and have a good day.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference call. Thank you all for joining. You may now disconnect your lines.