

Transcript

Conference Call of NBCC Ltd.

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Presentation Session

Moderator: Good afternoon, ladies and gentlemen. I am Moumita moderator for this conference. Welcome to the conference call of NBCC Limited hosted by IDBI Capital Market Services Limited. We have with us today, Mr. Vishnu Pada Das, the Chairman and Managing Director of the company. At this moment, all participants are in the listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone key pad. Please note, this conference is recorded. I would now like to hand over the floor to Mr. Hansraj Singh of IDBI Capital. You may please go ahead, sir.

Hansraj Singh: Thank you, Moumita. Good afternoon everyone. On behalf of IDBI Capital Market Services Limited we welcome you all to Q4 FY12 earnings call of NBCC. We have with us Mr. V.P. Das, Chairman and Managing Director along with other senior management team from NBCC Limited. For further proceedings I would like to hand the floor to Mr. V.P. Das. Over to you, sir.

Vishnu Pada Das: Thank you. We had our board meeting yesterday only and our balance sheet has been signed and board has approved the audit committee report and the financial results are now out and this year we have done, if you see the turnover, this turnover has been 3429.32 crores and if you take profit before tax it is around 289.93 crores and profit after tax is 190.17 crores. If you see the provision for dividend has been made for 42 crores and we are giving 35% dividend on the face value of Rs.10. Our mainstay is Project Management and Consultancy and the business model is PMC and civil works and power sector and real estate works that is our mainstay and continues to be that. So, this year almost we have as earlier said almost 10400 crores order value was there, now it is likely addition in the year is around 1000 crores further in which 4000 crores likely order may come for our Kidwai Nagar East which we have not declared in our DRIQ, but it is likely to be signed with the Government of India and the drawings have been submitted in the advance stage and the orders may come any day. Government of India is also considering giving us some other works which now it is too premature to speak about it, but those things may come. Order book position, statement wise if you take order book position for 12-13, PMC would be around 5,000 crores in which infra will be around 200 crores and real estate will be around 400 to 500 crores. That is the order book position. Now, if you see the financial year 12-13 ending 13, the prospects appear quite bright as our Okhla real estate works are nearing completion and we are likely to make substantial profit there and total earnings could be from there around 500 crores in which our expenditure nearly 200 crores, so we are likely to make a neat profit around 250 to 300 crores, that is the position. Also we have a small real estate works in Kolkata and Mangole in Kolkata and KMRC works; there also we are likely to make profit. So, this is the position presently and I hope that in the future also

for 14-15 and 15-16 also the works are likely to be completed in real estate and the Government jobs are also likely to flow and the project size in PMC will also continue to rise. That is the position right now. In case you have any questions you may please ask me.

Question and Answer Session

Moderator: 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.

The first question comes from Mr. Sanjay Shah from KSA Shares and Securities. You may please go ahead, sir.

Sanjay Shah: Sir, congratulations for good number, sir.

Vishnu Pada Das: Thank you very much.

Sanjay Shah: Sir, as this is the first concall we would like to understand our business model of our company that is right from the order procurement, execution, billing, payment cycle, what are the major expenditure involved and how do we bill our profit, how do we take profits in our books due to realization or on payment receipt, these all the things we would like to understand from you, sir?

Vishnu Pada Das: Definitely, first I will go to the business model. Our business model is PMC then real estate and power sector. In power sector we take contract, we do the contracting business there, we take the works in cooling towers, chimneys, main plant works, CW systems, CHP all civil works and execute them. We participate in the tender activities. That gives also a benefit that we remain in touch with the market that what is happening in the construction world. The real estate is our own work where we purchase the land, selective purchasing of the land, we do not create a big land bank, only buy the land and within six months to one year of the purchase of the land we launch our construction and when the construction starts we sell around 30%, 35% of the space and when the structure is completed another 35%, 40% and remaining on the completion or nearing completion of the work we derive more profit. The main stay of the business is PMC, Project Management and Consultancy, there we take works of the government and really construction is outsourced and we give it to someone. That way the major chunk of the risk passes on to the outsourced partner or the contractor and we charge our PMC, Project Management Consultancy charges we take from our clients which varies from around 6% to 7% to around 10% depending on the size of the project, that is the way and all the works are awarded through a competitive bidding to a bidder, qualified bidder. We have a prequalification list which is prepared through a tender and there is a team of experts, they sit on this and they finalize the list and based on the list only (not sure) are called and now as far as the realization of the booking profit is concerned, when it is completed. Presently we are following, when the work gets completed and sold out then only we book the profit not before that. That is the present tactics we are following and in the project management consultancy is based on the 10% every year we keep on charging on our execution of the works. That is 6% to 10% that is the process we follow. Yeah please, I hope that clarifies.

Sanjay Shah: Yeah, major it is clarified. So, usually the billing cycle as I understood is on the completion, right? So, what we account for as a profit is only after the completion of the project.

Vishnu Pada Das: For the real estate portion.

Sanjay Shah: What about PMC?

Vishnu Pada Das: Portion where the project is completed then we book the profit, but before when we launch the sale whatever money comes that goes into WIP and remains with us, the interest of that money goes into the income, but not the real purchase, that amount which comes to sale.

Sanjay Shah: I appreciate, but again can you repeat about PMC, how we take it?

Vishnu Pada Das: PMC, see example I will give you, suppose a job is 100 crores and it is based on the percentage completion. Suppose we completed 20 crores or 40 crores job, then 4 crores comes to us as a PMC charges or it varies from 6% to 10%. It can vary from 2.4 to 4 crores that comes to our PMC charges comes to us a gross margin. That is the way we do it.

Sanjay Shah: That's it, I understood sir and if any question I will come back again sir and thank you sir, nice talking to you.

Vishnu Pada Das: Welcome, yes.

Moderator: Thank you, sir. Ladies and gentlemen, we request you to kindly use your handsets while asking your questions to avoid echo. Ladies and Gentlemen, if you have a question, please press * and 1 on your telephone keypads to ask the question.

The next question comes from Mr. Nishit Master from ING Investment. You may please go ahead.

Nishit Master: Yeah sir, my question was on some newspaper articles regarding NBCCs reported entry into power generation sector, are these reports true or incorrect?

Vishnu Pada Das: See, what happens, lot many people keep meeting our people also. Since we are doing construction work as a contractor in power sector so people ask our people also whether you can divert into power generation or not. You see these kind of questions may come since we are already in the power sector for the last 30 years, but our job is basically PMC, wherever we divert it will be through PMC only. We may take a partner, but it will be through PMC only, largely billed through PMC and he will take all the credit not we.

Nishit Master: So, I assume that and can I get an assurance from you that we are not going to be an owner of a power plant?

Vishnu Pada Das: There is no plan at the moment.

Nishit Master: Okay, great sir, thank you and sir, one more question, what was the current order backlog you said, it was 10400 crores?

Vishnu Pada Das: Yeah, that was as on 1st April 2012.

Nishit Master: And how much of this is executable in FY13?

Vishnu Pada Das: See, we are planning for around 4000 crores this year.

Nishit Master: And this is for the excellent rating?

Vishnu Pada Das: Yes, yes.

Nishit Master: Okay and would you have a PBT target this year for excellent ratings?

Vishnu Pada Das: Yeah, there is a target for that also. Please hold the line. Gross margin I can tell you around 4.79%.

Nishit Master: And PBT?

Vishnu Pada Das: See, PBT is not given, but I can give you the net profit which is around 152 crores.

Nishit Master: Great sir, best of luck and very good set of numbers, sir.

Vishnu Pada Das: I can assure you it will be more than that because this year also we have crossed that.

Nishit Master: Okay, thank you, sir and best of luck.

Vishnu Pada Das: Thank you.

Moderator: The next question comes from Mr. Yogesh Suneja from PUG Securities. You may please go ahead.

Yogesh Suneja: Yeah, good afternoon, sir.

Vishnu Pada Das: Good afternoon.

Yogesh Suneja: Sir, you built many projects on nomination basis in your PMC business, so can you just throw some light on it like what proportion of your order book currently is through nomination basis and going forward how you are looking at this situation like can government change this scenario and they may invite, like they may call for competitive bids as you do in power segment?

Vishnu Pada Das: Let me clarify, almost 90% of our business comes from nominations. Now, what is happening NBCC has been recognized as a public works organization that is parallel to CPWD, Central Public Works Department, so what happened, that many of the ministries do not have an extended arm for execution. Like

CPWD is an extended arm of the execution for almost all ministries. Now, since they were not able to execute the work according to, as per the wishes of the various ministries we have also been recognized as a public works organization and since the various ministries do not have an extended arm for execution of work they are likely to appoint the organizations like us NBCC for doing their work. So, works will continue to flow and it cannot stop because they do not have executing arms or the implementing agency.

Yogesh Suneja: Okay and any specific ministries which usually go and appoint you to give business or it can vary across ministries?

Vishnu Pada Das: Since NBCC has been recognized as a public work organization, almost all ministries are considering NBCC for execution of the work. It is Ministry of Home Affairs, all police works, many of the police works NBCC is executing, Ministry of Culture, Ministry of Corporate Affairs, Ministry of Urban Development, Ministry of Power Delegation, Ministry of Donor, almost all ministries they are being executed, even HRD also. See, it is not only that, even NBCC has been getting works on competitive bidding also as PMC. The IIT Patna has been given to NBCC on a competitive bid. NBCC has also got the works on competitive bidding from not sure) Hyderabad and Bangalore.

Yogesh Suneja: Okay. sir and sir, on PMC business EBITDA margin like right now as you mentioned that they vary from 6%, 7% to 10%, but like for projects which you win through competitive bidding, like what is the general trend in industry on PMC segment as such specifically like can you just give some idea about the competitors margins?

Vishnu Pada Das: It varies from 4% to 7%.

Yogesh Suneja: Across the industry it will be from 4% to 7%, okay.

Vishnu Pada Das: But one thing is there, there the consultancy is shared by the owner normally, that varies around 2% to 3 % again.

Yogesh Suneja: Sir, can you just elaborate on that what you just said?

Vishnu Pada Das: See, what will happen, the 7% to 10% margin normally includes the consultant's fee also for architecture, but when the competitive bidding is there for only for PMC, then the architecture fee is not included in that if the architect is appointed by the owner itself.

Yogesh Suneja: Okay, fine.

Vishnu Pada Das: So, it almost comes to same, around 6% to 10% or 7% to 10%.

Yogesh Suneja: Okay, fine. Okay sir, thank you very much, that's it from my side.

Vishnu Pada Das: Thank you.

Moderator: Thank you, sir. The next question comes from Mr. Sanjay Shah from KSA Shares and Securities. You may please go ahead.

Sanjay Shah: Yeah, sir I am back again to just clarify the projection given by you around 4000 crores that is only from PMC or including that real estate?

Vishnu Pada Das: See, it includes all, but real estate portion and the construction works in power sector is very small, almost 3500 crores should be from PMC and 500 crores will be put together the both.

Moderator: The next question comes from Mr. Rahul Soni from Baljit Securities. You may please go ahead, sir.

Rahul Soni: Hello?

Vishnu Pada Das: Yeah, please.

Rahul Soni: Sir, thanks for giving me the opportunity. Sir, I see your order backlog is around 10400 crores, sir, can you give me the breakup of this order book in terms of your various segment like real estate, infra and civil construction and what are the margin picture in these three segments?

Vishnu Pada Das: See, if you take that 10000 crores infra would be around 400 crores and real estate will be around 2000 crores and the rest is PMC.

Rahul Soni: Okay and how are the margins in these three segments?

Vishnu Pada Das: See, PMC as I told you it varies from around 6% to 7% to 10% and infra could be anything, sometimes it is as high as 20% also. This recent project when we concluded and we calculated our profit, it was quite high, around 20% and real estate, you know, it gives lot of profit, it sometimes goes more than 100% also.

Rahul Soni: Okay and what sort of land bank do you have currently?

Vishnu Pada Das: Land bank, NBCC has around 125 acres of land in various places in which around in joint venture is around 52 to 53 acres and then owned by NBCC is around 60 to 70 acres that is like that. See, I can give you the breakup also if you want to know that NBCC has two acres of land in Okhla which is getting completed this year and it will be sold out this year and large profits may come from there, then two land banks in Gurgaon area, in Sector 37-D and Sector 89, 15 acres and 11 acres, there construction is going on for housing and it is on sale now and then in Khekra is a place on Sonipat-Baghpat road where almost 125 acres of land is available and almost 17 acres the work is going on, then there are land banks available in places in Lucknow and Alwar also, it has been purchased through auction, that the construction will be launched within a period of 4 to 5 months. Patna also there is a land bank around 4 acres, construction is already going on, then there is a land bank in Kolkata around 5 acres purchased from West Bengal government, there again the commercial development is likely to take place and drawings have been approved, the construction maybe launched by October and November.

Rahul Soni: And sir, you have a substantial portion of cash in your books around 1325 crores, so what is your plan on deployment of the same?

Vishnu Pada Das: See, there are two kinds of cash balance, one is owned by NBCC, say around 600 to 700 crores belongs to the deposits, it is not NBCC money, it comes from the various government agencies and the remaining 300 to 400 crores belongs to NBCC, that is the thing. See, the entire money doesn't belong to NBCC and that is the position in PMC that most of the money is given in advance and work is executed against the advance and we give the plant our utilization certificate.

Rahul Soni: Okay, sir my question is regarding the order book, what is the execution period for the same, this 10400 crores order?

Vishnu Pada Das: See, normally execution period varies from 2 to 3 years, normal. Sometimes we complete earlier also, in 18 months also, but normal period is around, it varies from 18 months to any day around 30 months or 24 months to 30 months.

Rahul Soni: Okay and sir, what kind of order inflow have you seen last year and what is your expectation for FY13?

Vishnu Pada Das: Last year almost 4000 crores of order books have been added to our kitty, now this year also around 5000 crores of order books we are expecting.

Rahul Soni: Okay and sir, my last question is regarding your receivables, there has been significant jump in that, so just want your comment on that?

Vishnu Pada Das: See, this jump is because of the execution of the work and now it is around 662.34 crores.

Rahul Soni: This trade receivables are showing around 852 crores...

Vishnu Pada Das: I will request my General Manager-Finance to clarify; she will come on the phone and explain.

Rahul Soni: Okay.

Management: Hello, at present in the balance sheet we have shown 1024 crores receivable out of that we have already realized 360 crores and the balance is 660. Actually since NBCC is dealing mainly with the state governments and various government agencies so all are in the process of realization.

Rahul Soni: Okay.

Vishnu Pada Das: Yes please, I hope that clarifies.

Rahul Soni: Okay sir, thanks a lot.

Vishnu Pada Das: Thank you.

Moderator: Thank you, sir. The next question comes from Mr. Hansraj Singh. You may go ahead, sir.

Hansraj Singh: Yeah, thanks for taking my question. My question pertains to the real estate segment, so what kind of projects you are expected from the real estate segment in this year that is in FY13?

Vishnu Pada Das: FY13, NBCC is completing one project that is NBCC, Okhla. There is a place called Okhla in Delhi, it is a commercial complex, this project will be complete. Almost 2 lakh sq ft of built up area that will be on sale this year and NBCC will be able to conclude the sale by I think December, January and already process is on, might be very soon in the month of June or so, in the last week of June the launching may start for sale and also...yeah, please.

Hansraj Singh: Sorry, go ahead.

Vishnu Pada Das: And also there are two housing sectors in Gurgaon, 37-D and 89, there also sale is on launch and 89 already 160 dwelling units have been sold out and another 160 are under allotment and in 37-D 412 units, the advance money have been received from the buyers and we may come out with the notification for lottery any day, that is two areas. In Patna also some construction has already started in a place in Patna, Bahadurpur, Sector 7, then in Kolkata a commercial complex is likely to be started very soon by October the construction may be launched in Rajarhat. So, these are the places already construction is going on and a place called Alwar in Rajasthan, Lucknow in Uttar Pradesh the construction may be launched by October-November. That is the position right now.

Hansraj Singh: Fair enough and sir, what kind of realization are we expecting on a per sq ft basis on Okhla project?

Vishnu Pada Das: Okhla project at the moment we have considered around Rs.25000 per sq ft, but we are expecting more than this.

Hansraj Singh: Great sir and sir, in terms of total value, what kind of total value we are expecting to book in FY13 from this then?

Vishnu Pada Das: See, if we totally sell out, say it is premature to speak, I told you around 2 lakh sq ft of built up space is there and price is around Rs.25000 per sq ft and you can make out how much the things are going to be there, but it is premature to speak because we have still not launched it.

Hansraj Singh: Sure sir.

Vishnu Pada Das: But we are expecting a very good price.

Hansraj Singh: Okay and sir, in terms of your commentary on margins?

Vishnu Pada Das: Margins, it is very clear. See, the land was purchased in 135 crores and the construction cost is around 80, 90 crores, now you can make out the margins.

Hansraj Singh: Fair enough, sir, thank you so much, sir.

Vishnu Pada Das: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad to ask the question. There are no further questions, sir. Now I hand over the floor to Mr. Hansraj Singh for his closing comments. You may go ahead, sir.

Hansraj Singh: Thank you all for joining us for this call. We would like to thank the management for allowing us to host this call. Let me hand over to management for closing remarks. Over to you, sir, thank you.

Vishnu Pada Das: I must thank you for holding this concall, it was important for us also because yesterday only we had our board meeting and we are looking forward for a brighter future for NBCC and so far NBCC has been doing well and the graph is upward in turnover as well as in profits so both which are bottom line and top line which are important for the industry as well as the corporation and the NBCC has been doing well and hopefully that this year will be brighter for NBCC. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, this concludes your conference 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 pleasant day.

Vishnu Pada Das: Thank you.

Note:

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