"ITD Cementation India Limited Q2 FY22 Earnings Conference Call"

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MANAGEMENT: **MR. JAYANTA BASU – MANAGING DIRECTOR**
MR. PRASAD PATWARDHAN – CFO

MODERATOR: **MR. RAHUL MODI – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to ITD Cementation India Limited Q2 FY22 earnings conference call hosted by ICICI Securities Limited. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Modi from ICICI Securities Limited. Thank you and over to you, sir.

Rahul Modi: Good afternoon everybody. Thank you for joining us for the Q2 FY22 post results conference call of ITD Cementation India Limited. On behalf of ICICI Securities, we would like to welcome the ITD Cementation senior management led by Mr. Jayanta Basu – Managing Director and Mr. Prasad Patwardhan – CFO. Thank you for your time, sir. I would like to hand over the floor to Mr. Prasad Patwardhan who will give his initial remarks post which we can have a Q&A session. Thank you and over to you, sir.

Prasad Patwardhan: Good afternoon everyone and thank you for joining us on this Q2 FY22 earnings call. This is Prasad Patwardhan, CFO of the company. I will start with my initial comments and then hand over to our MD, Mr. Basu, for his comments, and post that, we will take your questions.

Let me start with the financial performance for the quarter:

This quarter, we have reported operating income of Rs 811 crores which is an increase of about 47% on a Y-on-Y basis, EBITDA for the quarter is Rs 73 crores as compared to Rs 5 crores in Q2 FY21, EBITDA margin for the quarter stands at about 9%, and we have reported a profit after tax of Rs 15 crores this quarter as against a loss of Rs 51 crores last year in Q2 FY21. Our debt continues to be at a moderate level and our debt-to-equity ratio is at 0.5x which is probably the lowest in the industry as of now.

In terms of our order book, we have a well-diversified order book of over Rs 11,500 crores comprising of urban infra, metro and airport projects which constitute about 30% of our order book; marine is about 27%; hydro, dams, and tunneling is about 18%; and building is about 13%. This is in terms of the financial numbers. I will now hand over to Mr. Basu for his initial comments.

Jayanta Basu: Good afternoon to all of you and thank you for joining this concall for our performance of Q2FY22. I would like to highlight our operational performance in brief and we will touch upon a little bit on the order book positions and opportunities lying ahead with us. The key contributor during this quarter was Bengaluru metro underground project, Udangudi which is a marine job, Myanmar overseas job, Kolkata underground metro project at Biman Bandar, Pamban bridge at Rameswaram, JNPT port work and Trichy airport. We have got around 52 running projects and the projects, which I have mentioned above, contributes maximum currently.

If we highlight upon the percentage of completion of major jobs, Bengaluru metro, we have done around 15%. The tunneling work has already commenced which we had highlighted last time. We have a job in Sivok-Rangpo in Sikkim, which was impacted by the monsoon because of severe climatic condition has achieved around 18% to 20% progress. Mumbai metro as we all know that we have completed the tunnel portion long time back. We have achieved progress of around 83% and Kolkata metro underground around 95% progress we have achieved. In terms of percentage completion for the elevated structure in Bengaluru metro, we have achieved around 98% completion for 3 major jobs – one job which is lagging behind because of front not available, we have done around 80%. In Marine vertical, we have done around 51% in Udangudi project, around 50% in Myanmar project and one of the major jobs in Seabird at Karwar has just started where we have achieved 2% progress. There are a few jobs in our building division, which is Trichy airport where around 52% progress have been achieved and some of the other jobs which we have just started, we will discuss in detail later on.

This is a brief about the major operational progress during the quarter and I will be happy to answer all of your questions. So, please feel free to ask any questions.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles. We have the first question from the line of Mr. Mohit from DAM Capital. Kindly proceed.

Mohit Kumar: First question is on the EBITDA margin. Our EBITDA margin especially on the consolidated numbers, if you are looking at pure EBITDA without adding associate numbers is a decline by quarter on quarter from 9.5% to 6.2%. Is there any reason either something, which is one-off, or something, which you can comment upon? A related question is on the financials itself. It seems the standalone debt has gone up, but we don't see any increase in the receivables. Can you please comment upon those 2 line items?

Jayanta Basu: Regarding bottom line which is EBITDA and PAT, there are a few factors which have impacted this bottom line. The generic factor all you know is that steel price has impacted everybody. We never expected that steel price will go to this extent. In fact, last two con-calls, we had some prediction that there will be some impact which is around 0.7% to 0.8% going forward but it has gone beyond that. But that is common for everybody i.e for all the contractors.

Apart from that, if you see that as a policy in our company, we don't recognize the margin unless we achieved a threshold limit of progress which is 10% of the total contract value. Incidentally what has happened is, many of the big jobs we have started very recently. For example, Rs 1,100 crore Seabird infrastructure project in Karwar alongwith another Rs 900 crore job in Seabird for other vertical; then Rs 1,200 crore Kasturba Nagar residential colony project at Delhi which is not moving forward; Vizhinjam breakwater worth Rs 400 crores; Surat metro project which is Rs 300 crore; Aerospace museum at Delhi project worth Rs 250 crores; altogether around Rs 4,100 crore jobs, we have just started, but we are not able to recognize any margin. Going forward a large chunk of margin will come out in the next 2 quarters from here. That is the second factor.

And third factor, of course, there are some provisions we had to make for Bengaluru metro elevated portion which we thought that will be completed this year, but because of several reasons which is beyond our control, one of the projects we have just got the front available recently, which will go up to mid of next year or even beyond that. These are the factors which have impacted our bottom line in this quarter a little bit.

Prasad Patwardhan: Just to add to what has been stated, in our view, considering the profit from associate projects, excluding that from the EBITDA calculation is not really the right way to look at the numbers because Mumbai metro project or even other projects that we are executing with joint ventures, we are very much involved in the execution of these projects and hence it is not proper to separate out the margins that we report on these projects which have been executed in joint venture.

As far as the debt number is concerned, yes, there has been some increase in the debt levels during this quarter and maybe to some extent in the previous quarter as well, but that is a fallout of the second wave of Covid where some of our payments were delayed a bit and we had to spend some money on the mobilization of some of the new projects that were awarded to us in the previous quarter. That is why, we have seen some increase in our debt levels, but going forward, we don't expect any significant improvement in the debt levels once these projects start generating cash flow and the billing picks up on all these projects that we have incurred the mobilization expenses.

Mohit Kumar: Is there something to comment on the ordering opportunity? How is it looking right now? Which are the projects which you believe where we can participate in the 2nd half?

Jayanta Basu: I think that area is quite good. As far as order book position, it is flat, but the opportunities are there. In marine sector, I think around Rs 9,000 to Rs 10,000 crores of work we are pursuing are in various stages. We either have submitted our offer or will be submitting our offer by this month or so. Similarly, in the metro sector like in underground metro, we have submitted bids in Kanpur, Delhi, Agra and Chennai metro which is around Rs 15,000 crores. So, put together around Rs 25,000 crores of order we are pursuing at various stages.

Mohit Kumar: Anything else we have apart from these two segments i.e. metro and marine?

Jayanta Basu: Yes, there are plenty. Because I just wanted to highlight the major works. In airports, we are working with the private developers and associated with them to be a part of their development in the airport sector like Ahmedabad and Mumbai. Then, there is high-speed metro rail, also being one of the sectors where we have our association with some Japanese company for track laying work. Thereafter, drilling and blasting tunnel work in Himalayan range for railway project. Those sectors are also we are pursuing. It is not that we are focusing on underground metro and marine projects only. We are also pursuing some overseas job opportunities in Maldives wherein we are prequalified for airport job and exploring jobs in Bangladesh. There are some other jobs also in the pipeline.

Moderator: The next question is from the line of Vibhor Singhal from Phillip Capital. Kindly proceed.

Vibhor Singhal: Prasad sir, I just wanted to touch upon the margins again. I know you would be expecting questions on that. Sir, basically 2 things. First of all, it would be helpful if you could quantify that what is the amount of provision that we have taken for this Bengaluru metro project. We had earlier stated that Bengaluru metro is a no-profit no-loss project for us now after the provisions that we had earlier taken. Would this end up making Bengaluru metro a loss making project for us and if at all you could quantify that as well?

Prasad Patwardhan: Vibhor, in this quarter, we have taken a hit of about Rs 25 crores on this project. Overall, as of now, this project is incurring a loss, but we have a substantial amount of claims that we are pursuing with the client at this stage and these are the claims where we feel that we have a very good case and these are likely to materialize in our favor. That is where things stand now. Once these claims start coming in our favor, we expect the result of the project to change, but as of now, yes, we have recognized this loss during this quarter.

Vibhor Singhal: An extension of that question is that at many times, at many specific moments during the execution of this Bengaluru metro project, we had said that we believe that "okay, this is it and we will not be requiring to make any more provisions but more provisions have come in. Of course, I know this is the nature of the business. Now, my question is more on the Kolkata metro project, which had happened almost around 18 months ago. There also, we maintained that we would not require taking any provision and the client and/or the insurance company should be able to compensate for that. Are there any chances of similar provisions having been required to be made in that project because that project is not complete right now and most of these provisions actually end up surfacing when we submit the final bills to the client and that is when we receive and that is when we have to take those provisions. Is there any risk of a similar thing happening in the Kolkata underground metro project?

Jayanta Basu: As I have maintained, I still maintain that Kolkata metro we have got no issue, we have come out of the critical situation long time back, and we have almost completed 95% of the job; now, finishing work is going on. We still have enough cushion available in this job, and we already have some amount of certification from the insurance company as well very recently. So, don't worry about Kolkata metro at all.

Vibhor Singhal: The bills that we are submitting to the state government, are they being cleared on a regular basis?

Jayanta Basu: Yes, there is no delay in that.

Prasad Patwardhan: Bengaluru metro and Kolkata metro are two different projects and not comparable in any manner whatsoever. In the Kolkata metro project even after that incident happened 2 years back, we have never booked a loss on that project till date. That project is a profit-making project. So, I would request you to please keep that in mind.

Vibhor Singhal: Sure, sir. I really appreciate that. In fact, that is why I mentioned that many a times what happens is that when the project completes and that is when the client many a times we have seen this before in the industry, not with us but with other contractors, and that is when some of those provisions come in, but as Basu sir mentioned, I think he is quite confident of no more provisions being required in that project. I think that's pretty much sums it up. Thanks for that very clear clarification on that front.

Another question related to margins again is that I think we have maintained this many a times that our accounting policy sometimes leads to this kind of a volatility in the margins that we don't recognize any margins till 10% of the work is complete and that is also probably one of the factors which led to lower margins in this quarter. But the flip side is that at some point of time, we have lower margins because a lot of projects are at their initial stages, then at least there would be some quarter or some period of time in which most of those projects would be nearing their end phase, and then on those quarters, they would show exceptionally high margins. That seems to happen. We tend to get the negative side of the margins but the positive side of the margins, I think last we reported margins of -12% was probably somewhere in 2018. For the last 2 to 3 years, we have been hit by multiple things, but the positive side of that we have never been able to capture or report. Would you like to throw some light on that as to how does that mathematics work?

Jayanta Basu: I think Prasad will come back with details if required. I differ with your statement a little bit. If you see our margins in the last quarter of last year was pretty good. I think the Bengaluru metro had released at that time and our

PAT was around Rs 54-55 crores. It happens. I think eventually in the coming quarters, you will find this effect also.

Vibhor Singhal: What would be our debt at the consol level including maturities and everything?

Prasad Patwardhan: A little more than Rs 500 crores. It's about Rs 520 - Rs 530 crores.

Vibhor Singhal: This is at the consol level?

Prasad Patwardhan: Yes, this is at the consol level.

Moderator: We have the next question from the line of Prashant Shah, an individual investor. Kindly proceed.

Prashant Shah: Basically, I have 2 questions. One is that for this quarter and the 1st half of this financial year, while the accounting profit is there, the cash flow shows a negative cash from operations of Rs 95 crores. Can you throw some light on how this will play out in the next 2 quarters and what will be the net cash from operations in the range if you can give a range by end of the year?

Prasad Patwardhan: We will not be able to provide individual numbers as such, but in terms of the cash flow, the payments from our customers were delayed a bit because of the second wave of Covid and that is why you are seeing delays in inflows whereas we have continued to honor our commitment and payments to vendors, suppliers, and the financial institutions as well and that is why you see a negative operating cash flow coming out in this 6-month period, but hopefully, as things progress and the project execution picks up, we will see an improvement in our operating cash flow in the coming quarters.

Prashant Shah: So, is it fair to assume that the consol debtors which were around Rs 530 crores and which have gone up to 553 crores will again revert to the earlier position or we still expect the debtors to keep increasing?

Prasad Patwardhan: We expect the payments to start coming through now and the debtors' position should improve going forward. That is our expectation.

Prashant Shah: My second question is relating to the Myanmar project. The geopolitical situation is in a flux and has remained in a flux for quite some time. Basu sir and Prasad sir, how do you expect that project panning out going forward? Have we taken any provision till now and do we expect to take a provision on that project in the coming 2 quarters?

Jayanta Basu: In fact, recently everybody is talking about the Myanmar project, but I should assure you that there is no issue with Myanmar project because work is going on very smoothly despite of unrest in the local government, despite of pandemic, and despite of all the rumors. And I think in the last quarter, we have been paid properly. Around Rs 42 crores payment we have received, and from the top level of Adani, they have confirmed that we must continue with the work in full swing; in fact, expedite the job to complete as early as possible. So, ground reality is that there is no issue and we don't foresee any issue with this project at all.

Prashant Shah: One question aligned to that. There have been news reports that the principal contractor Adani Group is exploring to come out of that project. How will that affect our work and our service delivery going forward if that pans out?

Jayanta Basu: Let me explain it in a detailed manner. There are 2 ways this type of business runs. One is to build up the facility and the second stage is to operate the facility what has been built up by somebody else. Now, we are in the first phase, that we are part of building up the facility and somebody will operate; either Adani or they will sell it to somebody else. Like as you know that GVK has scaled down and Adani has taken over. Like Dhamra port was with L&T, Adani has taken over. Adani may want to discontinue their operation in Myanmar after some time, but definitely, they will complete the project as a package. Who will believe that being a company like Adani will half way leave the job and not complete the entire project. That is never going to happen and that assurance we have from the client. As far as we are concerned, we are supposed to construct the jetty which will be done, and by mid of next year, we will be out of this project.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities. Kindly proceed.

Parikshit Kandpal: Sir, my first question is on the executions. If I go a little back in the history when we used to do revenues of about Rs 3,000 crores on an order book of about Rs 5,000 to 6,000 crores. Now, the order book has doubled, but our revenues are still struggling to reach that Rs 3,000 crore mark. If I see my numbers, in CY15, we had a Rs 5,000 crore order book and now we have Rs 11,500 crores order book. We had revenues of Rs 3,100 crores in CY15 and we are still just about running that kind of a run rate now. I just wanted to understand why the execution has not been catching up with the growth in the order book. Our book-to-bill ratio has been expanding from almost 1.5 and it is almost 3 now. I just wanted to pick your brain that has the nature of the work changed or are there payment issues? What are the issues behind extension of execution tenure of the order book?

Jayanta Basu: There are many issues which have affected the last quarter revenues. I can explain to you in detail, but in brief, the first and foremost is, as I have mentioned that some of the big jobs which we have just started and you know when you start the job, in the initial period, the progress is less; like Seabird at Karwar and then one job in Delhi; that have caused some less progress because of the initial phase of the projects. Number 2, we all know that we have just crossed the monsoon. So, many marine jobs and some tunneling jobs in north of India, we could not do much because of adverse climatic conditions. Now, after September and October onwards, the climates are much better and we are having good working season. So, definitely progress will pick up and revenue will ramp up. One more thing I would like to highlight here is that Delhi job which you are listening for many months, many years, at least 1-1/2 years, that our Rs 1,100 crore job was stuck up. We could not do anything. Only last month, we got permission from the forest department to cut the trees and now the work will pick up. Those are the factors which have impacted the revenues last quarter, which will not be there in the coming quarters as well.

Parikshit Kandpal: Just to put a number, how much was the order book which would have moved into execution during this quarter? Out of Rs 11,500 crores if I have to say, how much is the running order book at the start of the quarter and at the end of the quarter if the entire order book is now into execution? Could you quantify that number?

Jayanta Basu: Our order book is around Rs 11,500 or Rs 11,600 crores. In that, except 2 jobs which are Surat metro and one job in Delhi we have just started work. One job, which is not moving, is the Chhara project in Gujarat because of local client issues for a long time. Apart from that, all the jobs we have just started and execution is on.

Parikshit Kandpal: My question was, in the 2nd quarter, how much were the orders which would have contributed for the first time to the execution. Out of the Rs 11,500 crores, at the end of first quarter , was it like we were executing only about Rs 5,000 crores of orders and rest of the orders started contributing to the execution from the 2nd quarter? Because you said a lot of projects did start from the 2nd quarter. So, if you can just quantify, how much was the executable order book, which had been added, in the 2nd quarter?

Jayanta Basu: If I go one by one, seabird marine job which is Rs 1,150 crores and Seabird land-based work which is Rs 900 crores totalliing to Rs 2,000 crores, then Karturba Nagar at Delhi is Rs 1,200 crores, Vizhinjam is Rs 400 crores. Likewise, there should be around Rs 3,500 crores jobs which are just started in the 2nd quarter or sometime during the 1st quarter for which we are not able to recognize the bottom line.

Parikshit Kandpal: Now, Covid is largely behind, most of the companies did mention that supply chain issues have been ironed out, labor is back to pre-Covid levels, and monsoon is behind; now, for this kind of order book which we have, what should be the ideal execution rate per quarter which we can do? I remember you did mention about hitting a Rs 1,000 crore of revenue that was the target. So, I just wanted to get your sense now that most of the order book is now executable, how much would be on this order book quarterly execution kind of a run rate now?

Jayanta Basu: I still maintain whatever I have told last time that from quarter 3 onwards, it will be around Rs 1,000 crores per quarter.

Parikshit Kandpal: On the CTC basis, all the provisions have been taken given that raw material prices have gone up, so we have everything provided now. So, is it right to expect that from the 3rd quarter, we won't expect any negative surprises on EBITDA margin now if the commodity prices stay at the current levels of 2nd quarter?

Jayanta Basu: Something like commodity price is where you do not have much control. It is not only the price of steel. Because of steel, many other items are getting affected like electromechanical work where you have to buy cable for some job and transformer for other jobs. Everybody is getting affected because of steel price going up and unfortunately, it is not stopping anywhere and going up only. So, that element of additional cost, maybe I don't know, would be there. Otherwise, balance things are under control.

Parikshit Kandpal: About 11%, I think you have been talking earlier about this 11% kind of margin, that should be doable if commodity prices will remain at these levels?

Jayanta Basu: Yes, double digit should be achievable, that is what we believe.

Parikshit Kandpal: Will you be in a position to disclose the insurance settlement, has it happened? Not the number if you don't want to disclose the number but at what percentage of level of claims like 80%, 60%, 70% that would have got settled. So, possibly there could be any positive surprise coming out because we did have surplus cash flows in that project about more than Rs 100 crores which was better utilized towards servicing and cash flows to basically execute the project. If you can just quantify what kind of claims you have or percentage of claims you have got?

Prasad Patwardhan: Parikshit, when there has been a positive development on the insurance claims, I think it would be premature for us to quantify or give out any numbers at this stage. Let the entire process progress further and let it be concluded and then the numbers will be on the table for everyone to see.

Parikshit Kandpal: I just wanted to know, out of the Rs 11,500 crores, what percentage of the order book has got pass-through clauses and what could be the fixed price contract share in the order book? If you can just quantify that number.

Jayanta Basu: This order book what we have now, I think 20% are from the private clients where escalations are not there in the contract. Balance 70% to 80% contracts are provided with escalation clause.

Moderator: The next question is from the line of Mr. Viral Shah from Yes Securities. Kindly proceed.

Viral Shah: Sir, a couple of questions. One, in terms of Kolkata metro, since we are nearing completion, what is the update on the dispute and arbitration claim with the insurance what we had? What is the update on that?

Jayanta Basu: There is no arbitration with the insurance authority. It is just discussions and negotiations going on with the insurance company. There is some positive development which I have just mentioned. It's okay as far as insurance matters are concerned, it is going well. There is no issue.

Viral Shah: Sir, if we recollect correctly, for Bengaluru, we had already made provisions which were enough, right? And the current provision is over and above those provisions, right?

Jayanta Basu: That's correct.

Viral Shah: No more surprises expected for this or we can expect some more negative surprises on this front as well?

Jayanta Basu: Bengaluru metro one silver lining as we have mentioned is that we have come to a situation where we could raise a lot of our bills for the variation work what we have done, which are still not certified and some of them are in variation of work and some of them are claimed. Now, we are pursuing them, we are pursuing with the client, those are in various stages. So, that has worked. And if we can complete the job based on the latest schedule what we have agreed, i.e., next year around June-July, there should not be any problem unless otherwise there are some issues regarding front availability again.

Viral Shah: Sir, this front availability issue which we had, that is compensated, right? Because it is a delay from their end, not ours, right?

Jayanta Basu: Yes, that is the grey area. Contract is not very clear on that but definitely there is some avenue through which we have claimed and we hope that it will be acceptable to the client at some point of time.

Viral Shah: Finally, if you could put the total, not the separate amount, but all total amount put together for the Bengaluru metro, what is the claim amount which we are discussing with the client? Only the amount is fine. Whether it is passed or not, that is the second issue, but a number that would be helpful for us.

Jayanta Basu: At this stage, it will not be fair on my part to talk about that because all are in the discussion stage. Some will be acceptable, some may not be acceptable, and some we are still working out. Once we go forward a little bit, we will come to know, will definitely share with you.

Moderator: The next question is from the line of Mitesh Mehta from MNM Financial Services Limited. Kindly proceed.

Mitesh Mehta: With respect to this new infra reform which came in last week of October by which this L1 thing has been to some extent dismantled and the QCBS method will be adopted for the government orders or entities of government, how you see that what kind of benefits do ITD as a company will gain in this change of criteria?

Jayanta Basu: I think this is very impressive and a very good proposal by the government because many times we will find that we are not able to compete with many other contractors because of certain cost level. As we believe that we are a good contractor and our prequalification and our credibility in the market is good, this will definitely help us to secure more contracts from the government.

Mitesh Mehta: One more question was with respect to the existing order book that we are having in and around Rs 11,500 crores and the fact that we are now bidding for projects worth Rs 25,000 crores, can we as investors expect a 15% CAGR growth over the next 3 years, and irrespective of the margins may fluctuate we all understand the kind of business we are in, but if we are talking of an 11-12% band of a margin and a 15% CAGR growth over the next 3 years is it something achievable? Obviously, some variation may happen because of something which is not in our control, but can we look like this as a small vision statement going forward?

Jayanta Basu: Yes, sure. On top line, definitely 15% to 25% growth is quite achievable considering the potential what we have and considering the opportunity what is lying ahead of us. I think it is quite reasonable to say that we will be able to achieve that number.

Mitesh Mehta: And 11-12% EBITDA margin is also something in line?

Jayanta Basu: As we have seen in the past, double digit, yes.

Mitesh Mehta: Subject to some issues, which are not in our control, that always we have to take care of.

Moderator: We have a follow up question from the line of Vibhor Singhal from PhillipCapital. Kindly proceed.

Vibhor Singhal: Sir, this is a quick question. What would be the pending order size of the Myanmar project in our order book?

Jayanta Basu: Total value of the job is around Rs 560 crores and so far we have completed around Rs 270 crores in September.

Vibhor Singhal: So, Rs 290 crores would be left in the project as of now?

Jayanta Basu: Around Rs 270-280 crores is left out.

Vibhor Singhal: Sir, overall are we comfortable with the earlier guidance of 15% to 20% top-line growth this year?

Jayanta Basu: Yes, we still maintain that.

Moderator: We have a follow-up question from the line of Mr. Mohit from DAM Capital. Kindly proceed.

Mohit Kumar: Sir, do you have any number for order inflow for FY22 and how do you see the H2 panning out?

Jayanta Basu: So far, we have received about Rs 1,800 crores to Rs 2,000 crores. I think it will reach up to around Rs 5,000 crores this year based on the opportunities what we have and the tenders that are in the pipeline.

Moderator: We have the next question from the line of Mr. Anshuman Ashit from ICICI Securities. Kindly proceed.

Anshuman Ashit: Sir, the first question is on the Mumbai metro project. You had informed that you have taken a provision on Bengaluru metro and there is no issue on the Kolkata metro project, but could you throw some light on what is the status currently on the Mumbai metro and will we have to take any provisions over there and by when will the project be completed?

Jayanta Basu: Mumbai metro the critical part was the tunneling, which we have completed 4-5 months back. So far, we have achieved around 83% of the financial progress. I think it will be sometime during 2023 June-July, the project should be completed. Now that the critical phase is over, we will be doing only the civil work and the finishing work and remaining work i.e., electromechanical work. So, there is no provision required for this job and we are in a comfortable position as far as Mumbai metro is concerned.

Prasad Patwardhan: In fact, if I may add, the Mumbai metro project has been generating profits right since the beginning. We have never booked any loss on this project so far.

Anshuman Ashit: Secondly, you had mentioned that our consolidated debt stands at Rs 520 crores currently and it was raised due to some payment issue. By FY22 end, where do you see the debt levels to stand at and when you see the payments coming back to us improving?

Prasad Patwardhan: Whatever payments that were getting delayed because of the 2nd wave of Covid have already started materializing. We don't expect the debt levels to increase from these levels. Although the level of operations we expect to go up from Q3 onwards, we don't expect any significant movement in the debt if at all the debt may come off a bit because of the cash flows that our projects will generate.

Anshuman Ashit: So, can we assume Rs 500 crores of debt at FY22 end as well?

Prasad Patwardhan: Yes, I think it should be around that number if not lower.

Anshuman Ashit: My next question is on the opportunity size which you had mentioned i.e. Rs 25,000 crores. How much do you expect to be awarded in FY22 and FY23 and what will be our market share in that? Any ballpark figure if you can provide?

Jayanta Basu: If you see our success to secure the job, it varies from 15% to 20%. So, if it is Rs 25,000 crores, it will be around Rs 4,000 to 5,000 crores may be the order we can book. I will not be able to comment on the timing because it depends upon how the client takes up their project. Bulk of them should come by this year.

Anshuman Ashit: Majority of the Rs 25,000 crores to be awarded in FY22 itself?

Jayanta Basu: Yes.

Moderator: We have the next question from the line of Venkata Subramanian Raman from Organic Capital. Kindly proceed.

Venkata S. Raman: When we speak to competitors and even when we actually broadly look at the company, we only come with a lot of admiration for the kind of skill sets the company has. And also, given the kind of complexity of many of our projects and the kind of value addition that we give to our clients, I see a small dichotomy. Are we getting sufficiently paid? Because, our margins never get into double digits, our PAT margins are probably a bit lower than some of our competitors. Where do you think is the issue? Are we bidding a little too aggressively? Because, in any case we don't bill more than about Rs 800-900 crores in a quarter. So, to that extent, there is probably no need to be as aggressive as probably we have been in terms of what the numbers have finally turned out to be. I don't know how to look at this. Do you have any thoughts?

Jayanta Basu: Yes, I think this is a very common question by all the investors for some time. If we leave one-off jobs, then you will find our performance is quite good, and for the last several years, we are not able to do good in a particular vertical which we are trying to almost not pursue much. Before it was road and then elevated metro. If I am very specific about that, Delhi metro has created some problem 2 - 3 years back and now Bengaluru metro elevated also has some effect on our bottom line. And unfortunately, the value of the jobs is substantial. When we took Bengaluru metro, all the 4 jobs came together, around Rs 2,400 crores. However, because we have now concerns about this issue, we are very careful not to pursue such jobs further because one-off job can create a lot of issues in our bottom line. That is the reality, and I hope that we will be able to come out very soon from this situation because whatever job we have now in other verticals like underground metro, airports, and marine is good.

Venkata S. Raman: And therefore, if you try and press the reset button now and if you can go across and say now whatever we have seen in the recent past is an aberration, on a normalized basis therefore, should we look at double-digit margins for the kind of order book that we are carrying?

Jayanta Basu: Yes, at least EBITDA should be double digit. That is what we maintain always and we should be able to achieve that, yes.

Moderator: We have the next question from the line of Prem Khurana from Anand Rathi. Kindly proceed.

Prem Khurana: Basu sir, when I look at the quarter, it has been a little dull for us in terms of new additions, and if I remember correctly, in last quarter's performance program, you gave us a sense that you were looking at almost around Rs. 30,000 odd crores of new tenders. What actually went wrong during Diwali? Is it that the clients went a little slow in terms of giving the projects or we went a little slow because of some or other reason or these orders have been pushed down further?

Jayanta Basu: Basically, it is a client-driven issue. If you see one by one, there are 4 DMRC orders i.e. Delhi metro job which we had tendered 2 months back, nothing has come out. We had tendered for 2 underground metros at Chennai a month back or so. So far, there is no movement from the client's side. Similarly, in the private sector also, 1 job in Gujarat, another job in Colombo, these are moving a little slow because of whatever may be the reason from the client. That is why last quarter you see there is not much order inflow.

Prem Khurana: How about the new pipeline? Do you get to see any issues with these as well or these are largely at advanced stages? Or if you could share anything in terms of how much of these are essentially the bids wherein you have already placed your quotes and you are sure that you would get to have it in some time from now?

Jayanta Basu: I think this all will come out now. I don't know about Delhi metro, but at least Agra metro, Kanpur metro, Chennai metro will be as I know that very soon the tenders will be open. As you know, for the Colombo job, Adani, they had faced some problem which was government to government. Now, that is sorted out. So, they have geared up now which should come by this year at least. And BMCT, I was just talking to the employer this morning. They wanted to change some orientation of the project location, which has been approved now, which also should come by this year. So, I am quite hopeful that by another 2-3 months' time, the situation will be better.

Prem Khurana: Sorry, if I am repeating this. I actually missed your opening remarks. Any update on the Bengaluru underground metro in terms of geological surprises or are we going smoothly with this project?

Jayanta Basu: Bengaluru metro we have already started the tunnel boring operation by TBM machines and it is going quite smoothly. No issue on that.

Prem Khurana: Just one last from my side on this Bengaluru elevated metro the 4th package, what is the status on the balance work? Is it still not available with us or it has been made available and now you need to finish it? And if it is not available, how long would you be willing to kind of wait for the work front?

Jayanta Basu: Good thing about this package is, we just received the front a month back and now I have to agree that we have got the entire front available with us. The second thing is that as the front availability was delayed, there have been some changes in the engineering drawing because this is being connected to the other line. If we get the drawing on time, I think it is through now.

Moderator: We have a follow up question from the line of Mr. Mohit from DAM Capital. Kindly proceed.

Mohit Kumar: Sir, how effective is the price variation clause in protecting our margins, especially in our variable contracts?

Jayanta Basu: If you are lucky, then you will find that whatever escalation is paid by the client, your expenditure is less than that. But in today's scenario, it is not like that because steel price has gone up to such an extent that whatever escalation provision which is based on the Reserve Bank of India and wholesale price index, that doesn't really cover the entire escalation cost. So, yes, there is a bit of additional cost towards that as well.

Mohit Kumar: What could be that gap? Can you please quantify that in the sense of basis points?

Jayanta Basu: If I remember, last quarter I had quantified. It is effecting around 0.5% to 0.7% which was under control, but now recently 1 month or so, the price has gone up a little bit more. So, we have to again work it out; the effect of that.

Moderator: As there are no further questions, I would like to hand the conference over to Mr. Rahul Modi for closing comments.

Rahul Modi: I would like to thank Mr. Basu and Mr. Patwardhan for a very detailed call. It was actually a very good interaction. Thank you very much, sir, for giving us the opportunity. I hand it over to you for any closing comments.

Prasad Patwardhan: Thank you Rahul and everyone for their continued interest in our company. We look forward to interacting with you again next quarter. Thank you.

Moderator: On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.