



“ITD Cementation India Limited Q3 FY2021 Results Conference Call”

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ANALYST: MR. ADHIDEV CHATTOPADHYAY - ICICI SECURITIES LIMITED

**MANAGEMENT: MR. JAYANTA BASU - MANAGING DIRECTOR - ITD CEMENTATION INDIA LIMITED
MR. PRASAD PATWARDHAN - CHIEF FINANCIAL OFFICER – ITD CEMENTATION INDIA LIMITED**

Moderator: Ladies and gentlemen, good morning and welcome to the ITD Cementation India Limited Q3 FY2021 Results Call hosted by ICICI Securities Limited. As a reminder, all participant 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 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 Mr. Adhidev Chattopadhyay from ICICI Securities Limited. Thank you and over to you Sir!

Adhidev Chattopadhyay: Good morning everyone. On behalf of ICICI Securities, I would like to welcome everyone on the call today. Today from the management, we have with us Mr. Jayanta Basu, the Managing Director and Mr. Prasad Patwardhan, the Chief Financial Officer. I would now like to hand over the call to the management for their opening remarks.

Prasad Patwardhan: Thank you Adhidev and good morning to everyone for joining us on this call Q3 earnings all. This quarter we have seen significant improvement in our operating performance. Our turnover for the quarter at 792 Crores is about 43% higher than the turnover reported in the previous quarter ending September 2020. Another notable point is even on a year-on-year basis we have exceeded our turnover, which we had reported in the quarter ending December 2019, so there is a growth of about 12% in our turnover and we have exceeded I can very confidently say now that we are out of the COVID issues and that is demonstrated by the increase in our turnover. Our EBITDA margins have also improved in this quarter to about 11.5% and for the quarter we have turned the corner after two quarters of losses and we have reported a profit of about 30 Crores in this quarter. As far as the order book is concerned, the order book as of December 2020 is about 12030 Crores. New orders that we have secured in this year add up to nearly 2900 or 3000 Crores and even after the end of the quarter we have received new orders worth about 520 Crores. So all in all we have had a very satisfactory performance in this quarter and we hope that going forward we will continue to improve upon this performance in the quarters to come. I will now hand over to Mr. Basu for his opening comments and then we take your questions. Thank you.

Jayanta Basu: Thank you Prasad and good morning everyone. As Prasad has just mentioned, as you all know and as expected our performance in Q3 much better than Q2 and Q1, we could overcome the situation from the COVID and I hope and wish that we will maintain the same momentum going forward. We also have healthy order booking of 12000 Crores as well. We will brief segment wise performance of last quarter. We are active in Urban infra segment such as Underground and Elevated metro, airports marine, road and railway tunnel, water / sewage, hydro, bridges and special works. In urban infra we are working

in Mumbai Metro, Kolkata Metro, Bengaluru Metro, and Nagpur Metro. Mumbai metro the tunnel job- as I have reported last time the entire TBM tunnel has been completed successfully and the work in three stations are going on in full swing and we are in the right track. We expect that as per the latest program we will be able to complete the job on schedule.

Kolkata Metro it was a big turnaround after we had an issue last to last year. We could complete the tunnel up to Sealdah from Esplanade. The second tunnel we have started very recently and I hope by end of May or sometime during June entire tunnel work will be completed. Bengaluru Metro work has commenced – pre casting and station works are progressing. We have done around 9% to 10% progress so far which is a good achievement in terms of Metro underground work within the given time and COVID issue and main tunnel, which tunnel boring machine is expected to start from April/ May. Initially there had been some constraint about the front availability, but I am happy that Bengaluru Metro has done a good job and they have provided us working front recently. Drill & Blast tunnels in Sivok-Rangpo sector, in Sikkim a now started picking up. We have mobilized the required plant and machinery and the tunnel jobs in all the available fronts are going on smoothly and this is the working season till May. We have to make substantial progress during this ongoing working season.

In elevated Metro, as you all know we are working in Nagpur Metro, Kolkata Metro, and Bengaluru Metro. Bengaluru Metro we have got extension of time for the three jobs up to mid of this year and we will be able to complete the three jobs by that time. One job where still the front availability is a problem, will go up to next year sometime. So with that on an average around 88% job has been completed in Bengaluru Metro. Nagpur Metro is a matter of another two to three months time. Except the station contract, which is awarded much later, we hope that all other works will be completed by next two to three months.

Coming to marine there are plenty of jobs we are executing now like Udangudi, Myanmar, JNPT at Mumbai, Dhamra port for Adani, Haldia for Inland Water ways, Port Blair and there are around three or four new jobs. Udangudi's progress every month is upto our expected level. Myanmar has been going well, there are some local issues now, but even then we are able to progress, yes we are not able to do 100% progress, but we are able to do around 50% to 60% even in the given condition and around 20% jobs we have completed in Myanmar. We have started some new jobs very recently. We are mobilizing for Vizhinjam breakwater. Sea Bird initial site set up is going on and Pamban bridge, just received the LOI from RVNL and work has just started. Krishnapatnam Port progress is satisfactory.

The construction of Trichy and Pune suffered little bit due to COVID, but now it has picked up the momentum.

As far as future prospects, we have Opportunities in Patna metro, Chennai metro underground, and elevated, Delhi Metro in urban space. Then we have got in Marine some overseas job in Srilanka some other prospects in Gujarat as well. With all these opportunities I think around 16000 to 20000 Crores jobs are in pipeline and with the thrust given by the government this year in budget and we hope secure sizable jobs in future. That is all in a brief. I will request your questions you have so that we can answer them. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Congratulations on a decent recovery during the quarter. Execution wise I think you are now seeing good recovery but still on the margin side you are still lagging, EBITDA margin if I see for the quarter is about 9% so were there any one-offs and still the impact of COVID which is hurting us that is why we are not seeing this improvement in margin?

Prasad Patwardhan: Parikshit we have seen improvement in the margins as we have been saying in our past calls as well. The margins are gradually improving if you see our margins in the earlier quarters and even in the last year we are getting this. We hope that with our order book that we have on hand we will see an improvement in margins going forward, but we cannot go from a COVID position to the highest level of margins in one quarter that is going to be a gradual process and we are seeing this Q3 demonstrates the improvement in margins and we are hopeful that this will continue going forward.

Parikshit Kandpal: With the execution ramp up you are seeing in Sikkim and Marine project and overall reduction in the order contribution from the elevated metro, which is typically low single digit margin projects so do you see the revenues, which you were earlier targeting to at least to a quarter basis about 1000 Crores so are we on track for 4Q of this financial year to get that run rate?

Jayanta Basu: Yes I think so with the new orders, which is now getting converted to revenue from first quarter of next year we should be able to achieve that.

Parikshit Kandpal: Okay, these orders in JNPT to which we were PSA we were submitted some bids, so any update on those bids and what is the status of those projects if you can just touch upon that?

Jayanta Basu: There is a contract between PSA and JNPT and PSA supposed to complete the phase 2 work within certain time. Now I believe because of COVID they got some extension and they are not in a hurry to do the work but the update from them that towards end of this year PSA may restart tendering process.

Parikshit Kandpal: Lastly on the balance sheet side Prasad if you can tell what is the debt status right now, so if you can have a consolidated debt and what is the cash on the book and net working capital days?

Prasad Patwardhan: As far as our consolidated debt is concerned as of December it was about 520 Crores, the cash on the books was about 70 to 80 Crores so our net debt is about 450 odd Crores. As far as the working capital days are concerned we are at roughly 120 days, but one thing that Parikshit you need to keep in mind is the receivables that we disclose in our balance sheet that includes contractual retention, which gets paid out at the end of the project it is not contractually due at the moment so that includes the working capital days that we are mentioning about 120 days includes about 30, 35 days of contractual retention, which is not due so that is where we are. One more point I would like to add as far as the debt is concerned as of December we had debt on the Bengaluru Metro project of about 100 plus Crores as on date it has nearly halved it is at about 50 to 55 Crores as of now, so we do not expect the debt levels to go up significantly going forward it should be more or less at the same level.

Parikshit Kandpal: Okay Sir, thank you and all the best.

Moderator: Thank you. The next question is from the line of Venkat Subramaniam from Organic Capital. Please go ahead.

Venkat Subramaniam: Thanks for taking my question. In the past we have had a series of issues, Bengaluru, Kolkata, IL&FS, etc., now is there on the technical side, etc., do we still have any challenges left or are we really see light at the end of the tunnel, are we done with whatever provision we need to make?

Jayanta Basu: Kolkata we have done it, as I have mentioned in the beginning that we could complete the tunnel successfully through the ZONE which was affected and the balance tunnel work will be completed by sometime May this year, so there is no technical challenge in Kolkata. Bengaluru it was rather than technical more of front availability issues but now as I had mentioned that three projects we have almost completed except one job which remains to be seen on the front availability to be made by the client.

Venkat Subramaniam: Related question Mr. Basu given the kind of complexity of work that we do you believe that we are getting compensated sufficiently, are we getting underpaid, are we getting more aggressive actually in our bids, etc.

Jayanta Basu: There are segments like marine and underground metro and to some extent the airport where we are doing well, but to remain in the market you have to do other work as well like some bridge work we have started and some elevated metro though in percentage wise we have reduced a lot and it is the competitive market we have to see what customer requires, what is the economy and what is the competitive situation, so given all these things I think we are doing well.

Venkat Subramaniam: Related question again given our confidence of billing up about 1000 odd Crores per quarter and also given our order book when do you think our operating leverage will kick in based on which our PAT margin which we kind of target something like about 4.5 to 5% when do you think it can head north and where do you think it can settle?

Prasad Patwardhan: As far as the operating leverage or the debt on the balance sheet is concerned, we are very conscious of not letting the debt increase significantly. Having said that one must realize that for any infra project we need to first investment money for the first 3, 4 or maybe 6 months depending on the size of the project before the working capital cycle really gets managed and the client starts making payment against our bills, so it is a working capital intensive business that we are in, so we cannot wish away the working capital or leverage that we have on the balance sheet, but the endeavor is to keep the debt within manageable levels and we have been able to do that even during this COVID period that is one part. Secondly as per the PAT margins we have seen our results for this quarter and as we ramp up the operations and whenever we touch 1000 Crores or we cross 1000 Crores we are bound to see an improvement in the margins, but I would not be able to put a number on it, but we are pretty hopeful that the PAT margins will also improve in FY2022.

Venkat Subramaniam: Some of our competitors in similar fields Prasad have PAT margins of almost about 6.5% to 7% when we get to 1000 Crores plus, etc., you think we can kind of get this?

Prasad Patwardhan: I frankly do not see ourselves reaching PAT margins of 6% or 7% no I do not really see that. I agree with you there are a couple of players in our industry who have been reporting margins in the range that you mentioned, but frankly for a pure EPC contractor like us we do not see PAT margins of 6% to 7% getting reported, but an improvement in the margins from where we are today yes that is certainly possible.

- Venkat Subramaniam:** Thanks all the best.
- Moderator:** Thank you. The next question is from the line of Viral Shah from Prabhudas Lilladher. Please go ahead.
- Viral Shah:** Good morning and congratulations on a good set of numbers. My most of the questions are answered. Just one Sir in terms of order inflow per se what are we looking at now going forward and which are the key segments where we can see good amount of order inflow that is one and secondly in terms of Kolkata Metro where we are in terms of claims and with the insurance company so these are two questions from my end?
- Jayanta Basu:** I will answer your last question first. Kolkata Metro technical issues are all over and commercially we do not see any risk there as we have been maintaining and preferred claims through client and also we are pursuing the insurance claim. We are yet to see the results and continuous efforts are in progress.
- Coming to order book definitely we are pursuing with the marine jobs, there are three or four big marine jobs and put together will be around 7000 to 7500 Crores of tender in pipeline. We are of course pursuing underground metro like Patna Metro, Chennai Metro and Delhi Metro, which will be coming up for bidding soon. Similarly airports which are now under privatization, we are looking opportunities and prospects in the aviation sector. So this is in a nutshell about the prospects.
- Viral Shah:** Fair enough Sir. In terms of order inflow guidance and which are the sectors where you are seeing good amount of order momentum per se could you highlight that as well?
- Jayanta Basu:** As I mentioned marine, underground metro, and airports, these are the three sectors where we expect there will be good inflow.
- Viral Shah:** Okay sorry Sir I missed that. In terms of tender pipeline what will be our tender pipeline be that's it from my end?
- Jayanta Basu:** It will be around 16000 to 20000 Crores.
- Viral Shah:** Thank you so much Sir. That is it.
- Moderator:** Thank you. The next question is from the line of Mohit from DAM Capital. Please go ahead.

- Mohit:** Good morning sir. Congratulations on good set of numbers. Sir first question was how much is the Bengaluru old order book is left in terms of Crores in amount?
- Jayanta Basu:** Bengaluru there are four jobs and total value of the job will be around 2300 odd Crores except one job almost 90% to 93% job has been completed if you take an average it will be around 88% jobs we have completed out of 2300 Crores.
- Mohit:** Understood Sir. Which are the orders, which are likely to contribute substantially or incrementally in FY2022 out of our order book Sikkim tunnels working season is only till May and it will not contribute anything from May to September is my understanding right?
- Jayanta Basu:** Yes, that is a very rain prone area so normally it is not even advisable technically to work during monsoon at this area because landslide prone so we think that July, August or at least part of June and then July, August the progress will be slow, thereafter again from September onwards work will start and now as because it is a winter and good season and work is going on in full swing.
- Mohit:** Looking on incremental revenue, which will flow in from specific order, which will start contributing substantially to the topline FY2022?
- Prasad Patwardhan:** Most of the orders that we have on hand today they will contribute to our topline in the next year. To be more specific we have the TANGEDCO Udangudi project, marine project in the state of Tamil Nadu, the Bengaluru Metro underground project, these are some of the projects even the Sivok-Rangpo although the work maybe a bit slower during the monsoons, but otherwise we expect these projects to contribute significantly in addition to the new projects which we have been awarded, for example in this quarter we have received an order from the Indian Navy it is a marine order worth about 1100 Crores that should contribute to our topline in FY2022.
- Mohit:** Are you looking to bid for this Mumbai sewage treatment plants, is it something on the card or it is not in the consideration?
- Jayanta Basu:** It is within our radar but we are not very sure because it comes and goes so we do not know the reality. So of course we have done a lot of work for two of the jobs, I think six or seven so yes it is in our radar, but we really do not know what we will do finally.
- Mohit:** Lastly on this PSA container terminal I have heard that they have postponed the construction by 3 to 4 years, is that understanding right and most likely the orders will get delayed in the sense ordering of this project?

- Jayanta Basu:** I do not think three and four years because my understanding and feedback from them that by the end of this year they will resume the tender process so that they can start work from sometime during November and December this year.
- Mohit:** Myanmar when are you supposed to close that particular port in the sense entire construction?
- Jayanta Basu:** Myanmar work is going on it is a 2-year contract so far I think we have done around 100 odd Crores out of 600 Crores job.
- Mohit:** It will take another a year or so am I right?
- Jayanta Basu:** Another I think one-and-a-half years.
- Mohit:** Understood Sir. Thank you Sir. Thank you and best of luck.
- Moderator:** Thank you. The next question is from the line of Shreyans from Equirus Securities. Please go ahead.
- Shreyans:** Thank you and congratulations on a very good set of numbers. My question pertains to the JV share of profit now that you know that the worst could be behind us so can we maintain the run rate which we posted this quarter?
- Prasad Patwardhan:** That is what we are aspiring to and that is what we are hopeful of doing.
- Shreyans:** Okay what is the status of the order book, what is the current order book and how much have we completed till now?
- Prasad Patwardhan:** The unexecuted portion of our order book as of December is about 12000 plus Crores and in the month of January we have received orders worth about 500 plus Crores. Our order book as it stands today is about 12500, 12600 Crores.
- Shreyans:** I am specifically asking for Mumbai metro?
- Prasad Patwardhan:** Mumbai metro balance work is to be done is about 1000 Crores.
- Shreyans:** Deadline would be next year for completion of this project?
- Prasad Patwardhan:** No it may be a bit longer than that, maybe about 18 to 20 months more from now.

- Shreyans:** The other question pertains to how much of our order book will be under any fixed price clauses given that raw material prices are increasing so can we see negative surprises going forward on account of provision of increasing raw material prices?
- Prasad Patwardhan:** Most of our projects have escalation clauses, the formula may differ from project to project contract to contract, but almost all our projects have escalation clauses built in.
- Shreyans:** I guess primarily that could suffice around 70% to 80% of price hikes that could but the balance could be hampering the margin?
- Prasad Patwardhan:** That is possible there will be some effect. The 100% increase in the material price may not be compensated from the contractual formula. Some part of it we may have to factor in as our cost.
- Shreyans:** Sir any specific margin provisions we have made this quarter or this quarter it is primarily towards the COVID?
- Prasad Patwardhan:** I am sorry I did not get your question.
- Shreyans:** Any provisions which you made towards raw material increase in prices this quarter or primarily this quarter we made provisions primarily towards COVID?
- Jayanta Basu:** COVID effect has been taken last quarter and as you know that we review our cost every quarter or every six months and wherein this increased steel prices particularly and to some extent steel prices has also been considered and accordingly results has been declared.
- Shreyans:** Okay great. That is it from my side. Thank you and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** The debt has increased from 330 Crores net debt of last quarter to almost 450 about 120 Crores increase and then 50 Crores reduction happened in elevated so which is about 170 Crores a total increase in debt so what is the reason behind such a sharp increase in net debt?
- Prasad Patwardhan:** Parikshit please understand the gross debt is more or less at the same level. We had a lot of cash in our book, which has got used up and that money has essentially been deployed for mobilization costs for these new projects that have been awarded to us. The net debt

number is still within whatever range we have indicated in the past and there is no significant increase in the debt in fact what I would say is the debt in the earlier quarters of this year was subdued because there was a lot of cash and the level of operating activity was much lower.

Parikshit Kandpal: But you would have got some mobilization advance also for these new projects right?

Prasad Patwardhan: Not much. Nowadays the mobilization advances are available in parts so we need to draw maybe 2.5% or 5% of the advance use that first then we are able to draw the balance amount. So had the entire mobilization advance being availed at one go then you are right then that could not, we would not have drawn on the working capital limit to that extent, but since it is available in bits and pieces it has some impact on our working capital debt as well, we need to draw the debt, use it, then draw the advances so it is a mix of both. The total effect of that is what you are seeing in the debt numbers that we are reporting.

Parikshit Kandpal: This quarter there was a sizeable share of profit from us to say about 21 Crores so what is this pertaining to and also if you can tell now JV how much should be the unrecognized profit as of now?

Prasad Patwardhan: I will answer your first question Parikshit. Basically in this quarter in October to December quarter we completed one tunnel in the Kolkata Metro project and we completed the entire tunneling work in the Mumbai Metro project as well. There was some release of margins in these projects, which is getting reported in our financials in that separate line item. Now as far as the margins or the contingency that we have within the project CTCs I would not be able to comment on that at this stage. As and when the specific activity gets completed, the margin, if there is anything that we have kept aside on that account will get released and get reported in that particular quarter.

Parikshit Kandpal: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Mohit from DAM Capital. Please go ahead.

Mohit: Thanks for the opportunity once again. Sir what is the kind of fixed price contract we have in the overall order book, is it substantial?

Jayanta Basu: Most of our projects which we are executing are covered by the price variation clauses.

- Mohit:** What is the kind of your margin risk is to our order book given the increase in steel and cement prices and what kind of lag with which the escalation works?
- Jayanta Basu:** The recent hike in steel price is more as compared to normal scenario so there is some effect but as we all know that as a prudent contractor we also keep contingencies in provision towards various risks like this, so far based on our latest analysis it is not affecting as yet.
- Mohit:** Sir are you getting mobilization advance free or interest cost is payable for most of the incremental mobilization advance we are getting from the agencies?
- Jayanta Basu:** If it is a government customer then definitely there will be some interest, it varies customer to customer, but sometimes if it is private client like PSA or Adani we get it interest free.
- Mohit:** Incremental mobilization advance which you are supposed to get it over the next three to four quarters will they mostly free or you will not avail the mobilization advance or you will use our own balance sheet?
- Jayanta Basu:** If I am a little bit specific then we have got at least five or six contracts from which are expecting mobilization advance. Out of that two big contracts are free that is from the Adani, balance we will attract interest, so you can say that around 30% to 40% in the advance we will get, which is interest free.
- Mohit:** All the six airports recently got privatized and getting transferred to Adani, are we in talks with them to get at least some of the airports?
- Jayanta Basu:** Well I have mentioned that yes because we are a major player in airport we will definitely try to get into that construction provided if it is a sizeable and it can make money for us?
- Mohit:** Yes are there any other big government airports, which are up for tender now?
- Jayanta Basu:** No I do not think so and government is in process of privatizing airports.
- Mohit:** Understood Sir. Thank you. Best of luck.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.



*ITD Cementation India Limited
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Prasad Patwardhan: I would like to thank Adhidev and ICICI Securities for hosting this call and to all of you for your continued support. We look forward to engaging with you again next quarter. Thank you very much.

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