

Transcript

Conference Call of ITD Cementation India Limited**Event Date / Time** : **10th August 2017, 10:30 AM IST****Event Duration** : **1 hour 5 min 37 sec***Presentation Session*

Moderator: Good morning ladies and gentlemen. I am Honeyla, moderator for the conference call. Welcome to ITD Cementation 2QCY17 results conference call. We have with us today Mr. Adun Saraban, MD, and Mr. Prasad Patwardhan, CFO. At this moment, all participants are in 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 keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Parikshit Kandpal from HDFC Securities. Thank you and over to you sir.

Parikshit Kandpal: Thanks Honeyla. On behalf of HDFC Securities, we would like to thank ITD for giving us this opportunity to host the call. Without further delay, I would like to hand over the floor to Mr. Adun Saraban for his opening comments. Over to you sir.

Adun Saraban: Good morning to all. I will just give brief overview of the quarter that is mainly on the operation front and then I will hand over to Mr. Prasad, our CFO for the financial highlights.

Revenue Standalone

As the revenue of the standalone is concerned in the June quarter this year, it is really lower than the March quarter, I mean, from 518 crores to 473 crores. The reduction of 45 crores is mainly in the reduction of the scope of the MBPT, one of the marine project and other from a nearly completed project, like Noida elevated road in Delhi, Adani CT5 project, which partially negated by increase in the revenue from BMCT and Nagpur Metros.

As on June 2017 our Turnover is 473 crores compared to 830 crores in June 2016 Reduction of almost about 357 crores is mainly from the BMCT project, which is about 259 crores and DP World Container of about 60 crores.

Site Margin Standalone

Though revenue was significantly lower from the June 2016 to June 2017, about 43%, but our margin is better. This is mainly because of the challenging projects, especially the two DMRC projects have been almost completed giving us an opportunity in realization of margin from good Work in Hand (WIH).

Work in Hand Position

Work-in-Hand position as of June 2017 is 8212 crores, which half is under our company and another half, is under joint venture with other partners.

If we look at our WIH, it has grown up every quarter since June 2016.

•	June 2016	=	4435 Cr
•	Sep 2016	=	5758 Cr
•	Dec 2016	=	6583 Cr
•	Mar 2017	=	6603 Cr
•	Jun 2017	=	8212 Cr

Marine, which is our strength remains flat, actually in terms of the numbers that is from June 2016 it was 2193 crores and June 2017; 2237 crores.

Big jump of the work-in-hand is from the urban infra and MRT especially four elevated metros in Bengaluru, we secured during this quarter of about 2300 crores and just from only 245 crores in June 2016 and now 4169 crores.

L1 Position

Today we have L1 position, almost about 2400 crores, one of those is Udangudi Project that is 1800 crores and another 8 station Metro in Nagpur 311 and another lowest, that is micro tunneling in Calcutta about 299 crores.

Progress on some of the major ongoing projects**Mumbai Metro**

I would like to highlight some few projects, especially Mumbai Metro, that is our first TBM that is scheduled to be arrived at Mumbai by the end of this month and expecting that it is to be launched, which is to be the first TBM of the whole project of seven packages, by October 2017 and all other activities that is going well as scheduled.

Nagpur Metro

On Nagpur Metro, that is 10 stations almost crossed the 7% progress now and end of this year and we may cross 10% which will lead to margin realisation.

Kolkata Underground Metro

Kolkata Underground Metro design is almost completed, foundation an diaphragm wall already started last week and expecting that TBMs can be launched from this year end onwards.

Bengaluru Metro

As you all are aware we just recently secured four packages. In some locations work has already started in casting yard development, piling at some locations. Being under control of our Company alone, major contribution to top line can be seen in quarter 4 onwards.

Major Prospects

MTHL 3 packages, we are among the six bidders who have submitted their bids. We are expecting that latest by October 2017 financial bids may be opened.

Bengaluru Metros Underground – Four packages of underground metros are under preparation and due for submission by the end of this month.

Cochin Shipyard is due for submission by tomorrow.

Sea Link, Coastal Road & Mumbai-Pune Expressway are among the major prospects

Overseas Projects We are among the six bidders who had submitted the bid for the marine project in Bangladesh, budget of about 700 crores. We are in the process of preparing for one more bid for a marine project in Egypt, that is due for submission by the end of this month.

Prime Focus

And on the way forward, for sure every quarter, now onwards we focus to clean up our slow moving receivables and improve our liquidity and to be more selective in bidding for projects and to strengthen our standard operating procedures, safety, quality, and delivery for a sustainable growth of the company. I would like to now hand over to Prasad to give the financial highlights for the quarterly results.

Prasad Patwardhan: Thank you Kh Adun. Good morning everyone. My name is Prasad Patwardhan and I have recently joined the company as the Chief Finance Officer. Adun has given you a very detailed synopsis of the company's operations and I will take you briefly through the financials of the company.

For the quarter ending June 2017, we have reported revenue of 489 crores, EBITDA of about 65 crores and profit after tax of 21 crores. For the six months ending June 2017, we have reported revenue, total income from operations of 1000 plus crores, EBITDA of 132 crores, and profit after tax of about 36 crores. Regarding our debt position, the gross debt on the books as of June 2017 was about 490 crores. We had cash and bank balances in excess of 300 crores and the net debt as of June 2017 is about 175 crores, which gives us a very healthy debt-equity ratio of 0.3.

I am sure all of you have gone through our results for the quarter and you would have some questions, which you would like us to answer. We would be happy to answer any questions that you may have.

Question and Answer Session

Moderator: Thank you sir. 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.

Sir, we have the first question comes from Mr. Aditya Bhatia from Investec. Please go ahead.

Aditya Bhatia: Hi sir. Sir, you touched upon this aspect a bit in your opening remarks, but still want to understand in a bit more detail about revenue. Revenues in last two quarters have been a bit weaker and is that on account of JNPT project getting over and your projects not really contributing to revenues? And if that is the case, then by when do you expect revenue recognition from some of these new projects to come in, and how do you see revenues shaping up in second half of this year?

Adun Saraban: Thank you. That's a good question. As you clearly said, that BMCT is one of the major contributors in the last quarter, and in the previous year and it is now almost completed, but the new projects, if you see there is mainly today is metros, that would take some time mobilise the manpower, equipment etc. and be in a position where they can contribute, so we are expecting from quarter 4 onwards, that is significant revenue from the new project can be seen.

Aditya Bhatia: Okay. So, does that mean that even in quarter 3 we should be seeing weaker revenues and possibly in quarter 4 as well? And once revenue recognition starts, then maybe Mumbai metro, Bengaluru metro, that's when we see a big jump up?

Adun Saraban: Yes, really yes, we would.

Aditya Bhatia: Okay. And sir, this particular quarter we have seen a fairly sharp improvement in gross margins, part of which has also flowed down to EBITDA margins. What is this on account of and do you think that these are sustainable or does it relate to some past variances received on an earlier project?

Prasad Patwardhan: Good morning, this is Prasad Patwardhan. See, the margins are better in this quarter largely on account of some of these contracts, which are nearing completion. So, that has given rise to better margins, because some of the costs provisions that we had in our books for these projects, as we are overcoming the uncertainty, then the cost provisions are no longer required, we are taking credit for the same in the profit and loss account. So that is one of the reasons why you are seeing improvement in the margins. Secondly, some of the other projects that are there, the loss making projects is behind us now and the project that we have, that is under execution have better margins and that is getting reflected in the numbers.

Aditya Bhatia: Otherwise, going ahead we should be building in 9% to 10% kind of EBITDA margins, is that an assumption sir?

Prasad Patwardhan: I think the margins would be higher, that we can certainly look at about 11 or 11 plus margins.

Adun Saraban: I would like to add, EBITDA margin we could expect is something okay 11 to 13, because today there is one reason that is because 13% or whatever I am saying that is based on the standalone revenues. In respect of some projects in JV, only the share of profit gets recorded so that will give us a percentage that is a bit higher compared to the old order book.

Aditya Bhatia: Okay. So these joint venture projects, mainly Mumbai metro will be consolidated as associate entity right, single line post tax profitability will get consolidated.

Adun Saraban: That's correct. Mumbai Metro will be share of profit entry in the consolidated financials.

Aditya Bhatia: Understood sir. And sir, lastly, on JV profitability, it is good to see that JVs have turned around and at least those losses are behind us, but is it fair to assume that given that Delhi Metro project is now largely over, you wouldn't be seeing any further cost overruns and rather when Mumbai Metro starts, then we will possibly start seeing an improvement in profitability.

Adun Saraban: Yeah. That is quite clear that is, okay, as of now, from what our work-in-hand we have today, we have good quality work-in-hand, I can say that. Mumbai Metro is one of those, that is as of today, we have even nearly crossed 10%, but it is still nothing to be surprised as our focus on Metro with the new orders of about 600 crores is also taken up very well, so this is one of the joint venture project, which contribute only single line at the bottom. So, I believe, that is on the way forward, that is joint venture is going to be the performing well.

Aditya Bhatia: Understood sir. Thanks a lot, this really helped me.

Moderator: Thank you sir. We have the next question from Mr. Abhijit Vara from Sundaram Mutual Fund. Please go ahead.

Abhijit Vara: Thanks for taking my question sir. I have a couple of questions. First one is, this execution you mentioned, some will be parent and some on associates, could you help us understand which will be the major projects, which will be executed through associates and also probably how much will be booked in parent and associates, probably next year CY18?

Prasad Patwardhan: Out of the JV contracts, basically Kolkata Metro, Delhi Metro, and Mumbai Metro will be consolidated as associates and Bengaluru Metro will be fully consolidated, that is line by line consolidation, will take place as far as Bengaluru Metro.

Abhijit Vara: But just to clarify sir, you said JVs order book will be 50% of 8200 crores.

Prasad Patwardhan: Yeah. The total order book is about 8200 crores, the standalone order book out of that is about 50%.

Abhijit Vara: Okay. So, if I just have to assume that most of the orders will start getting executed from Q4 of the current year, next year you might be seeing only about 40%-45% execution of the current order book? Is that a fair assumption? Or less than that.

Prasad Patwardhan: I am sorry, can you come again?

Abhijit Vara: What I am saying is sir, the current order book on standalone basis is about 4100 crores, and bulk of the execution will pick up only by December quarter of the current year, December '17. So next year where there will be bulk of execution, probably you will be doing about 30%, 35% sort of execution of 4200 crores, and whatever new orders you will be getting in the remainder of the year. Even then the top line would look a little weak on the standalone basis, in CY '18 also.

Adun Saraban: See, I will give you the statistics on how the is work-in-hand is executed. From our past experience we have seen that every year, that is for the work-in-hand of any particular quarter or month, nearly 40% of it will almost get executed in the next 12 months, and this represents about 80% of the total revenue, and some 20% is contributed from the new orders, which is executed during following months. So, if you see these numbers today we have, that is yes, half that is about 4200 crores from standalone and another half that is from the joint venture.

Abhijit Vara: Okay. Sir, second question is, since the Metro projects the working capital requirement might be a little higher because them being under construction, once the execution of these Metro projects start full swing, do you see the working capital getting stretched or debt level start moving up again, from probably December quarter of the current year?

Prasad Patwardhan: We already have working capital lines in place for our joint venture contracts as well. You are right, there will be some working capital requirement on these joint venture projects, but our endeavor is to keep tight lid on the debt levels and the cash flows of the projects, so we don't foresee any significant increase in the debt levels going forward.

Adun Saraban: I would like to add to whatever Mr. Prasad mentioned on the working capital. In the past one or two years, we have executed elevated metro projects, at least three or four in Delhi, including the one that is challenging project for DMRC and another one that for PWD, and one at Noida elevated. Consequently, most of the equipment including launchers etc. is available with us and that mostly can be utilised for the Metro project currently under executions. So that is, as Mr. Prasad rightly said, we are not expecting any significant investment in this Metro project in Bengaluru.

Abhijit Vara: Okay, sure sir. I will get back in the queue. Thank you.

Moderator: Thank you sir. We have the next question from Mr. Adidev Chattopadhyay from Emkay Global. Please go ahead.

Adidev Chattopadhyay: Yes sir. My first question is on the revenue, that is for the year, earlier you were heading for a low single digit revenue growth in the CY17, so what would be your revised guidance now?

Prasad Patwardhan: We don't expect growth in our revenues this year as compared to the previous years. The revenues this year are, we expect them to be muted as compared to the last year.

Adidev Chattopadhyay: So sir, any quantification, any ballpark you would like to share, because our first half we have done about 1000 odd crores, and we have to increase as our asking rate is pretty high, so is there any backup planning.

Prasad Patwardhan: Our Q4 is expected to be significantly better and going forward, the next year revenues are also expected to be much higher than what we are reporting in the current year. It is difficult for us to look on a quarter-on-quarter basis, it is better to look at a longer duration to assess the performance. So, as I said, the performance this year as far as the topline is concerned, is expected to be muted. And the next year we certainly hope to do much better than the current year.

Adidev Chattopadhyay: Okay sir. Sir, next question is on our order intake now, so what is the further order inflows you are expecting now, during the balance of this year?

Adun Saraban: As I mentioned, that is today we have three projects, which are in L1 position, Udangudi is one of those, 1800 crores, we believe that some decision is likely to happen in October this year, and another two projects, almost of about 600 crores, in the Metro and Micro Tunneling segments. I believe these two projects will be converted to orders in this quarter. And in the quarter 3, if MTHL Project happens, it could be the major change.

Adidev Chattopadhyay: Sure. And just one, another clarification I wanted in context to a previous question. So, in our total 8200 crores order book, if my number is correct, around 1600 crores would be projects which will be shown as associates, right?

Adun Saraban: To be precise, I will give you the numbers, that is for the associate projects, that is 4178 crores and the rest is the standalone projects.

Adidev Chattopadhyay: Hello, sir just to continue on that, the Bengaluru Metro 2400 crores odd would be fully consolidated, but does not form part of the standalone order book, is that assessment correct?

Prasad Patwardhan: Yeah, that is correct.

Adidev Chattopadhyay: So that entire thing, so roughly 6600 crores is the, what do you say, the...

Prasad Patwardhan: Yeah, that is correct.

Adidev Chattopadhyay: Okay sir, thanks for taking my questions and all the best.

Prasad Patwardhan: Thank you.

Moderator: Thank you sir. We have the next question from Mr. Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Hi. Sir, just one clarification here, the Delhi Metro order, can you still share what is the number left or is it fully executed? I just got confused.

Prasad Patwardhan: About 100 crores of work, I am sorry, 50 crores of work is pending to be executed as of date.

Nitin Arora: As of now, has DMRC been asking for any extension for your current scope of work, I just wanted to know. I mean, we have been seeing that the existing developers, who were making the projects there, have been asked to increase the scope of work. So if that has been the case for us also at the current line, what we are executing?

Adun Saraban: No. See, for the two projects, one is underground project, Metro, which I can see is almost 99% is completed, the train is under commissioning today. So that is virtually completed. And as far as the elevated work is concerned, that is most of the finishing work for the train will be completed by October, some minor work of the 8 stations could be over up to December. Whatever Mr. Prasad mentioned on the balance work to be completed is about 100 crores, actually including of whatever is done, but is not billed, or whatever, some that is to be certified, but actually physical work is almost about 47 crores, something like that.

Nitin Arora: And how much would be billing, which needs to get generated in our cash flows, that is still left from DMRC, if I can get that number?

Adun Saraban: Yeah, for the billing that is about 100 crores.

Prasad Patwardhan: Yeah, billing is 100 crores. So the balance amount to be billed to elevated would be in the range of 100 crores.

Nitin Arora: Sir, in the Metro projects, given we have been clearly focusing on that and it is the nature that capex itself is happening only that area, given that the margin recognition has not started even in Bengaluru, there has been a recent one to you, Mumbai is, I think, a very less turnover, Delhi we have faced issues. What sort of things are giving you a confidence to be a double digit margin, because historically also not for your company, I mean, for any company that has done executions of metros in India, globally though they never do, and the contractor does not do more than 6%, 7% EBITDA margin in a construction work in metro, can you just highlight a little bit what sort of gives you a confidence in terms of getting a margin of double digit in a contracting work in a metro project in India. That will be helpful.

Adun Saraban: We will start with Bengaluru Metro. Actually before we shift or move to the Bengaluru Metro, we have done one of the projects, namely that is Noida, elevated road, where the nature of work is similar to the Bengaluru metro project. We have successfully completed the project with two digit margin. So that is, see, either good or bad experience, normally it always is a good lesson for us for the future. So that is, we learn from the past, as you rightly mentioned, whereas most of the metro contractors, have burned their fingers. But that is good lesson for us. And then we did very good in Noida, okay. In the same way we believe that we will be doing reasonably well for Bengaluru Metro for two reasons, as I said. I can say that half of the working capital or the assets utilized for the project is available within our company. First, we have almost the launchers, which can be utilized for the Bengaluru Metro. And the major one that is okay, I believe that all bidders in the Bengaluru projects, have bid at a reasonable price not like the prices/rates that were quoted earlier. These two reasons, we believe will work for us in Bengaluru..

Nitin Arora: Okay. The background was that given the...

Adun Saraban: I would like to add one more, especially that is, in the first 10% of the project, is foundation work. We all know that the foundation or the piling is one of our strengths, other than the Marine project. So that is, most of them, that is the metro, that is going to be executed, the first 10%, either Bengaluru Metros, Kolkata Metro, Nagpur Metro, any metro, 10% is from the piling work. So we are reasonably confident on this first 10% we will be going in with and that gives us the confidence regarding execution of these contracts..

Nitin Arora: Sir, piling any which way remains very less scope in the overall scheme of orders before you had the TBM, but I just need one quarter delay, which impacts the margin in the Metro, but I understood your point. Alright, thank you very much. Thanks.

Moderator: Thank you sir. We have the next question from Mr. Nilesh from Macquarie. Please go ahead.

Nilesh: Thank you for taking my question. Sir, wanted to understand that since JVs form about 50% of our order book now, so going forward when we are bidding for new projects, how do we...so most of the projects are going to be through JV route only? And if that is so, how do we decide that what will be the stake in JVs with respect to the parent while we are bidding for new projects?

Adun Saraban: That is for with parent company mostly today will be the typical, like Bengaluru project only. We try to have control all, so that the entire work can be done by the company, but parent company would be presented, namesake, that is higher the credential we need from the parent company.

Today we have the credentials to bid for a mid size project in the airports, metro etc. Roads is another ball game altogether. For larger projects we bid in JV in case other

partners credentials are required for qualification. In that case our participation could range between 30 and 49%.

Our preference would be to bid with our parent company as this would enable us to have control over the entire work.

Nilesh: Okay, got it. Sir, one more thing, if you can just tell me, so the share of profit from JVs on quarter-on-quarter basis, it has gone from losses of 17 crores to around profit of 2 crores, it is entirely based on DMRC project getting over or, I mean, the contribution coming down or there is something one off there.

Prasad Patwardhan: No, the losses that we have booked earlier were entirely on the DMRC project and the other projects, as Kh Adun mentioned, they will start contributing on profitability going forward. Like Kolkata Metro is now moving at a brisk pace, so that will start contributing. Mumbai Metro, once the TBM starts operations, that will start contributing to the profits.

Nilesh: Okay, and sir, just last question, so when they are booking the profits, can I assume that the margin that we are building like 3% to 5% of the execution that we do in that quarter? Something like that?

Prasad Patwardhan: Sorry, come again? I didn't get your question.

Nilesh: When we are booking, when we are showing the JV line, the profit share from JVs, so how does the margin compare vis-à-vis the execution? So the net margin is like close to 3% to 5% or what's the range?

Prasad Patwardhan: It is on a percentage completion basis. So, the profitability of that particular contract is assessed and depending on our share in that contract, we recognize the share of profit in our financials. It is the profit after tax from joint venture, which gets consolidated as a share of profit.

Nilesh: Okay sir, I am quite clear. Thanks.

Moderator: Thank you sir. We have the next question from Mr. Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Good morning sir. Thanks for taking my question. Sir could you just...just a couple of book keeping questions. Could you share with us the outstanding order of Kolkata Metro in our order book, including the recent extension of scope that we had won?

Adun Saraban: See, for the Kolkata Metro, the portfolio of project increased by about 600 crores, our share in this project is 49%.

Vibhor Singhal: Okay. So, that is all that is there of Kolkata Metro in the order book, or there is some work pending from the earlier order as well?

Prasad Patwardhan: There is something pending from the earlier order and the new order that we recently got.

Vibhor Singhal: So, both of them put together was how much would be Kolkata Metro in the order book?

Prasad Patwardhan: It should be about, in the range of 400 crores. This is our share of that contract.

Vibhor Singhal: Fair enough sir. That's what is reported in the order book. And Mumbai Metro will be around 1100 crores.

Prasad Patwardhan: Mumbai Metro is 1100 crores, 1100 plus.

Vibhor Singhal: Sure sir. So sir if I put these four metro projects together, so let's say, Bengaluru is around 2400 and 1100 Mumbai project, and then another 400 to 500 crores of Kolkata and Delhi Metro, so we are looking at around 4000 crores of metro orders, which we have also reported on 4800 crores, so I am sure, there is a bit of, let's say, more of urban infra and Nagpur Metro, which is also coming in. So, a majority of this, I would say, apart from let's say Bengaluru Metro, we will be reporting a share of profit from associates in the single line item, right?

Prasad Patwardhan: That is correct. But one change I think is only Nagpur Metro. Nagpur Metro order is sitting in the standalone...yeah, Nagpur Metro contract is not under joint venture, it is part of the standalone order book.

Vibhor Singhal: Okay, so how much would that be at this point of time in the order book?

Prasad Patwardhan: It is about 360 crores.

Vibhor Singhal: Okay, 360 crores, so that is standalone order book, that's not JV.

Prasad Patwardhan: Standalone.

Vibhor Singhal: So Bengaluru and Nagpur are basically going to be fully consolidated, Bengaluru line-by-line and Nagpur will be fully 100% consolidated because of the JV.

Prasad Patwardhan: Nagpur will be the standalone financials and Bengaluru Metro would form part of the consolidated financials.

Vibhor Singhal: Right. So, I think sir, as we can see, because large part of the order book is also dominated by metro orders and I am sure there are more metro orders coming in the fray, that we are kind of bidding for, so in terms of bidding for future projects, are we, let's say, kind of focusing more on this, because in the main segment, I believe, after the (not clear) Port project got taken over by, was won by, let's say Afcons,

I think there are not many marine projects, which we are looking at, at this point of time. So, is that we intentionally also would probably, let's say, go a little light on other sector orders, like marine and hydro projects, and probably focus more on metro projects going forward?

Adun Saraban: Even today that we have bid for one overseas projects, in Bangladesh and plan to bid for project in Egypt, that is for marine projects, and Cochin Shipyard that is okay, we will submit tomorrow, which has a budget of about 600-700 cores, so that is to answer your question, that is no, we will continue to be focused on areas of focus.

Marine projects continue to be focus area for us.

Vibhor Singhal: Fair enough sir. Also sir, basically, you mentioned that in L1 we have 1800 crores of Udangudi power project and around 300 crores each of Nagpur and Kolkata tunneling project, right?

Adun Saraban: Right.

Vibhor Singhal: Right. But the presentation actually says that the L1 is only 2000 crores.

Prasad Patwardhan: No, the total L1 today is about 2400 crores, Udangudi is about 1800, Nagpur Metro is about 300 plus, and micro tunneling Kolkata is about 300 crores.

Vibhor Singhal: Okay sir, I think, the presentation would have been at the end of the quarter, after which I think the, projects might have come in. Fair enough. Sir, can I have last book keeping question, what is your gross debt? I think I missed out that number.

Prasad Patwardhan: Gross debt is about 490 crores.

Vibhor Singhal: At the consol level.

Prasad Patwardhan: Yeah.

Vibhor Singhal: Okay, great. Okay sir, thanks a lot for answering my questions. I will come back in the queue sir if I have anything more.

Adun Saraban: Thank you.

Moderator: Thank you sir. We have the next question from Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Good morning sir. Thanks for taking my questions. First of all, congratulations on your new role. Sir, actually I joined a little late, so I am not sure if you have already answered this or not, but then, as far as margins are concerned, this

quarter we have seen good margins again this quarter, basically I wanted to understand if there is any one off in these margins as was the case in the last quarter, because last quarter we had a couple of marine projects and there was some cost reversals because we had our final cost numbers in place. So, was there any of such sort of item in this quarter as well?

Prasad Patwardhan: Well, there are a few marine contracts, which are nearing completion, and there are some costs reversals, which are happening as the projects are near completion. So, yes, you are right, that is one of the reasons. The other reason is that the loss making contracts or the lower margin contracts that we had, those are over and all the orders in our order book are profit making, and they are contributing to the revenue and EBITDA as well. So both these reasons have resulted in a better EBITDA being reported and profitability.

Prem Khurana: Sure. Sir, would you be able to quantify how much was the cost reversal, basically wanted to understand, I mean, how much is the sustainable or stable state of margins in this quarter, so that we can have these in our model as well.

Prasad Patwardhan: Well, Kh Adun explained that the stable state margins that you can look at going forward, will be in the range of 11, 11% plus, so you can take that as an indication.

Prem Khurana: So, does it mean, I mean, there has been some structural change in the way we bid, because I mean, if I look at your earlier numbers and due to DMRC is now a part of your associate, I mean, have you already stated your numbers for last year for DMRC project. There again, I mean, we were doing only 9 odd percent kind of margins, so from there 9% to 11%, this is despite you paying royalty payment of around 0.5% to your parent. So, does it mean, I mean, there has been some structural change in the way we have bid of these projects, which is why there is this margin expansion or I mean what would explain this expansion basically. Because the segments remains the same.

Prasad Patwardhan: Structural change this year has been in terms of accounting really; because the way we are consolidating, our joint venture projects has undergone a change. So, that is one of the reasons why the EBITDA looks a bit higher and the other two reasons that I mentioned earlier.

Prem Khurana: No, but then sir, I mean, you have already re-stated your numbers for last year, right, the comparable numbers that you gave, so it is net of DMRC. Right?

Prasad Patwardhan: DMRC losses have already been taken and the two reasons that I mentioned earlier, for improvement in the EBITDA numbers, those continue to be there.

Prem Khurana: Okay sir, no problem. And second one, I mean, sir basically book keeping kind of question, so if I look at our balance sheet, inventory seems to be down significantly. I mean, if I were to compare by December number. So, December

numbers were 846 odd crore rupees and now it has come down to 129 crore rupees, so what will explain this debt and the second one, I think, you have already bid for MTHL, the Trans Harbor Link project, so they were three packages, so which project would we have bid for, I mean, if you could identify?

Prasad Patwardhan: I will take your first question, which is difference in the inventory you mentioned. Basically, part of the expenditure cost that we had incurred earlier, which was sitting in WIP, has been converted into billing and resulted in invoicing to the customer. So that is why you see a drop in the inventory levels and the work-in-progress. Regarding the second question, Kh Adun will explain.

Adun Saraban: Three packages, we have submitted bids for the three packages and we are among the five or six bidders. We believe that there are five bidders in the final for the financial opening which might be next month or in October latest according to the news.

Prem Khurana: Sure, sure. And sir, you are bidding for some of the international orders now, so I think, places like Bangladesh, that you are looking to have some, in Egypt as well, so is it fair to assume that these projects would be in JV with our parent and second one, I mean, any other markets where you would like to identify, I mean, in the international geographies that you are exploring as of now?

Adun Saraban: No. We will go alone, we will focus not on every segment but mainly on marine projects, that is wherever opportunity is there, we plan to bid at least if we know the client who owns the project. For example, that is Egypt. This is one of the good clients for whom we have done work in the past and so that if they invite us among the few competitors, so only that way that we will explore overseas opportunity.

Prem Khurana: Sure. And do we have any number in mind, I mean, how much of order backlog needs to be from international geographies or any thought process, any number in mind or any ballpark figure?

Adun Saraban: No.

Prem Khurana: Or opportunity-based, I mean, as in when you get an opportunity, you would go and bid for these projects.

Adun Saraban: Yes, yes.

Prem Khurana: Okay, sure. Thank you, that's it from my end.

Moderator: Thank you sir. Sir, we have the next question from Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Yeah, good mornings sir.

Adun Saraban: Good morning.

Ashish Shah: Sir, just a single question I have. You know, we are expecting next year to be big in terms of the newer orders, which you have got. Any indication, because some of these orders are also quite complex, in that sense, it would be difficult to predict the revenue or the billing that would be possible in the first year of execution at this stage. So, if you could give any indication on that, how much one should be expecting from the Mumbai Metro project in the first year of execution in terms of billing as well as for Bengaluru Metro.

Adun Saraban: See, Mumbai Metro that is our share is almost 1100 crores. We will cross 10% by the quarter 4 this year. That is the time where we can recognize margins, because as per the norm when we cross say about 10%, we can recognize margins. So, that is the time and once the TBM starts, I mean, from the quarter 1 onwards mainly, that is the significant progress will come, and this is first TBM, and the second TBM is on the pipeline, that is to be difference of about two, three months, that is to start. And we believe that a significant margin that would be contributing in the next year from the Mumbai Metro project.

Ashish Shah: So sir, could we take a 20%, 25% of the order value of your share to be executed or billed in the next calendar year? Do you think that would be a good estimate?

Adun Saraban: Yes, before the eight months, let's say, if the 25% of the order value CY18 which can be divided into 60 timeline, it may not be right, but that should give some indication.

Ashish Shah: Right, and sir, for Bengaluru Metro?

Prasad Patwardhan: Bengaluru Metro is to be executed over a period of 30 months, so we expect significant progress on the contract to take place in the next financial year.

Ashish Shah: Probably 30%?

Adun Saraban: Yeah, 30%, yes.

Ashish Shah: Right. And sir, what could be a reasonable margin on these projects, I mean, since that you have guided for the standalone margins, and it would be required to really understand the margin on these high value orders since they will not come in the standalone entity. So what would be reasonable margin to assume in Bombay Metro and Bengaluru Metro at the EBITDA stage?

Adun Saraban: I can say that is two digit numbers. We could expect a two digit number from these two projects, EBITDA level.

Ashish Shah: Sure.

Adun Saraban: But I can assure, it will not be more than 15%, because that you can have on indication

Ashish Shah: Fair enough. So we could safely assume north of 10%, right? I mean, that shouldn't be a problem at this juncture.

Adun Saraban: Yeah, EBITDA level.

Ashish Shah: Yeah, I got you sir, yeah. Thank you very much sir.

Adun Saraban: Thank you.

Moderator: Thank you sir. We have the next question from Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Hi, good morning sir. Is it possible to quantify the amount of provisions written back in this quarter or for the first half?

Prasad Patwardhan: That we will not be able to quantify that explicitly.

Devang Patel: Okay. And could you also again clarify the 11% to 15% margin that you were guiding for earlier, is on standalone basis or for the consolidated order book?

Prasad Patwardhan: No, what we are indicating is based on our revenue recognition. We expect, on a standalone basis we expect the margins to be in the range of 11% to 12%, 13%. Because the JV margin comes after our share of the profit after tax gets consolidated. And whereas the revenue from those joint venture projects, apart from Bengaluru Metro will not get reported. So 11% to 12% margins would be on a standalone basis.

Devang Patel: Right. For the Sea Link project, what is our share in the consortium?

Adun Saraban: MTHL is around 40%.

Devang Patel: Okay. And on a broader level some of these projects are very big, but going forward at what stage would we reach a position where we will be able to bid for projects on a standalone basis? At what revenue threshold, if you could throw some light on that?

Adun Saraban: It depends on the segment, for the marine project; today that is, even you see that is 2400 crores, that is BMCT project. That we can bid on our own credentials. So sometimes it depends on the criteria. I can say that in the range of 1000 crore today we would qualify on our own for most of the segments.

Devang Patel: We have been executing complex projects and underground tunneling, marine projects metro projects, also, so up to what project sizes would we be able to bid on our own at this point of time?

Adun Saraban: In the range of about 900 to 1000 crores, I believe, that is today we have the credentials to bid for, but as the execution is concerned, that is 2000 crores or more it doesn't matter for us, now today we are capable to do that.

Devang Patel: Okay, that's all from my side. Thank you.

Moderator: Thank you sir. We have a followup question from Mr. Abhijit Vara from Sundaram Mutual Fund. Please go ahead.

Madan: Good morning sir. This is Madan from Sundaram. Sir, can you give us, share with us, what is the revenue in the first half from the joint ventures? Our portion, if you can say?

Prasad Patwardhan: See, on a standalone basis, our revenue for six months was about 991 crores and consolidated was about 1012 crores.

Madan: Sir, my question was only our share of the revenues we would have seen in the joint ventures, which you are not reporting on revenue right?

Prasad Patwardhan: See, as we mentioned earlier, the revenue from Bengaluru Metro will get consolidated, but the revenue from the other joint ventures will not get consolidated; only the share of profit will get reported. So what has got consolidated today for the six months ending June 2017, our standalone revenue was 991 crores and consolidated was 1012 crores. About 20 odd crores is the revenue from joint ventures that has got reported. And about 80 crores is the revenue of the other joint ventures, which does not get consolidated. The revenue of those joint ventures is about 80 odd crores.

Madan: Our share or the total...

Prasad Patwardhan: Yeah, that is right, our share.

Madan: Okay. And Delhi Metro is completely over, is it, it is fully done?

Prasad Patwardhan: No, it is roughly 50 crores of work is still to be done.

Madan: Still left, okay.

Prasad Patwardhan: Yeah.

Madan: Post the Delhi Metro, can we expect the PBT margin that we will show as an online item, share of profit of joint ventures, can be closer to what we show on standalone, that is possible, or it will depend upon how the execution in Mumbai Metro sort of picks up this year or probably next year is when we will see such margins?

Prasad Patwardhan: That's right. It depends on the execution of the project, but one thing that you need to note, is that only our share of profit after tax gets reported in our consolidated financials. So to that extent even if the project is making say 105, 11% margin, at the EBITDA level, it is only in this our share of profit after tax that gets reported in our financials.

Madan: After tax or is it PBT, because you were showing...

Prasad Patwardhan: No, it is the profit after tax that gets consolidated as share of profit.

Madan: Okay. So if we are making 4% to 5% sort of say PAT margins, whatever you are executing on this front next year should be reported as a one line item there, right?

Prasad Patwardhan: Yeah, that's right. In fact the profit after tax, that is 4, 5% if it is at the PBT level, then post tax whatever is the profit reported in the joint ventures will get consolidated as share of the profit.

Madan: Okay sir, thank you.

Prasad Patwardhan: Thank you.

Moderator: Thank you sir. Sir, we have a followup question from Mr. Vibhor Singhal from Philip Capital. Please go ahead.

Vibhor Singhal: Thanks for taking my question again sir. Sir, just a quick clarification; none of the numbers actually have reported either at the standalone number or at consol level, we have restated the financials as per the Ind AS option for earlier quarters as well, am I right about that?

Prasad Patwardhan: That's correct.

Vibhor Singhal: And sir, the consolidation treatment of any of the JVs has also not changed because of Ind AS option, right?

Prasad Patwardhan: It has changed.

Vibhor Singhal: But we restated that.

Prasad Patwardhan: Sorry, the joint venture projects where we exercised control are being consolidated. Where we have a minority stake in the joint venture, those are not getting consolidated, only the share of profit is getting reported in our numbers.

Vibhor Singhal: This is now, and before Ind AS option it was?

Prasad Patwardhan: Before Ind AS option, all the joint venture projects....it was line by line consolidation depending on our share in the...so let's say the joint venture

reported a revenue of 100 and our share was 40, then 40% of each line item would get consolidated, that is not happening now.

Vibhor Singh: But when we have restated the numbers for the earlier quarters, last year quarters, we have taken into account the new Ind AS options for the earlier quarters also, right?

Prasad Patwardhan: That's right. The previous years figures have also been restated.

Vibhor Singh: Sir, I just wanted that clarification. Thank you so much and all the best.

Prasad Patwardhan: Thank you.

Moderator: Thank you sir. We have the next question from Mr. Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: Good morning sir. Sir, my question is regarding your guidance for the next half of the year, so how do you see your topline ending for this calendar year '17?

Prasad Patwardhan: As I said earlier, the topline this year is going to be muted as compared to what was reported in the previous year.

Dhruv Agarwal: Right. And margins on a consolidated basis at the end of the year should be in double digits?

Prasad Patwardhan: You have seen our results for the half year, we expect similar results. We hope that similar results would get reported going forward.

Dhruv Agarwal: Okay. And in terms of tax rates, you will be paying full tax, around 32%, 34%?

Prasad Patwardhan: That's correct.

Dhruv Agarwal: Okay, thank you so much. Thank you.

Prasad Patwardhan: Thank you.

Moderator: Thank you sir. We have the next question from Mr. Rishab Mehta from Blue Ocean Capital Advisors. Please go ahead.

Rishab Mehta: Good morning sir. Thank you for taking my question sir. Two questions, sir the cost of material consumed, as a percentage of revenue from operation, has significantly increased from 22% to 31% quarter on quarter. So what are the reasons for that sir?

Prasad Patwardhan: You need to look at the cost of material consumed and the subcontracting and other expenses as well. Depending on the mix and our methodology of executing the project this cost of material consumed and subcontracting expenses will undergo a change. For example, in the BMCT contract, a large part of the work was subcontracted, which was the reason why the subcontracting expenses were higher in the earlier quarter and in the previous year. This year you are seeing a dip because we are the project is substantially completed now. And its contribution to revenue is also lower.

Rishab Mehta: Okay sir. And sir, my second question is, there was a loan of 328 crores given to some external party. So sir, could you please clarify to whom it was given and what was the objective of the loan and when do you expect the repayment and what is the interest that the company is charging on that?

Prasad Patwardhan: See, these are not loans given to any external parties, these are the...basically some of the projects that we are executing in joint ventures, so this is the funds used for executing projects in the joint venture, this is the funding that has been provided to the JV project. And we expect the money to be repaid as the project progresses and from the cash flows of the joint venture contracts.

Rishab Mehta: Okay, okay. Thank you sir.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. I repeat, if you have any questions, please press * and 1 on your telephone keypad. Sir, we have the question from Mr. Abhijit Vara from Sundaram Mutual Fund. Please go ahead.

Abhijit Vara: Sir, just one question, could you give us...I know you gave the order pipeline, but could you give us how much you are expecting to bag current year and next year in terms of order flow?

Adun Saraban: Yeah. The key, suppose it happens is MTHL, because MTHL is three projects, that is almost it is about 6000 to 8000 crores each, any one particular project secured by the company, that is going to change the whole scenario and the strategy for the future. So let's see, we will meet next quarter, we will be able to give a better answer at this point.

Abhijit Vara: Okay. But apart from MTHL, would 5000 crores sort of order inflow be possible for the full year CY17.

Adun Saraban: CY17, yes.

Abhijit Vara: 5000 crores apart from MTHL.

Adun Saraban: Apart from the MTHL, that is, expecting this year if this order, that is Udangudi comes in October, that is 1800 crores, and some Cochin Metro or Bangladesh Marine, that is could be another 600, 700 crores, so this is something that is in pipeline next quarter or later.

Abhijit Vara: In the first half you had 2600 crores of order inflow, is it?

Adun Saraban: As a ballpark, that is we try to target that is on the way forward, that is about 20%, that is growth of the actual work-in-hand. This is major focus.

Abhijit Vara: Sure sir. I was asking for the first...till June 2017 you had bagged 2600 crores of orders, is it?

Prasad Patwardhan: That's correct. Large part of it was the four contracts that we got for Bengaluru Metro and there were a couple of other marine contracts as well that we won.

Abhijit Vara: So 2600 crores was the inflow for the first half.

Prasad Patwardhan: Yeah, that's correct.

Abhijit Vara: Okay, sure sir.

Moderator: Thank you and there are no further questions. I now would like to hand over the floor to Mr. Parikshit Kandpal for closing comments. Please go ahead sir.

Parikshit Kandpal: Sir, I had one question. Sir, this Bangladesh project, the marine project, so what is the rationale behind going to Bangladesh. Because I understand, Egypt you said, DP World project, the client is asking you to bid for the project, but what about the Bangladesh project?

Management: Parikshit I can answer this question, this is a government of India funded project through EXIM; BHEL has got the work. It is a 2 billion dollar project and 80% soft loan is being funded for this Maitree project, a JV between Bangladesh government and Indian government. So there is a clear position on the funding in terms of the EXIM Bank, so BHEL is going to execute this work and they are looking for the Indian companies and we have been qualified for that project. That is one of the key reasons for this project.

Parikshit Kandpal: And what is the scope here?

Management: Here there are three scopes; currently the engagement which we are bidding is for the jetty side, on the marine side.

Parikshit Kandpal: Okay, so it is marine, jetty side. And sir any update on...

Management: And my MD said, we want to look at the appropriate business model in overseas venture, this could be an ideal platform to participate.

Parikshit Kandpal: And any update on the Udangudi project, I mean, it is quite long...

Management: Yeah, I can update you. They have recently asked us to extend the validity up to October, because they want to finalize on the main power plant. So we are going to be on the back end for the conveyor and the breakwater, the coal handling system, so there is one court matter is going on with the Tamil Nadu Court related to the power plant, BHEL is in race for the TANGEDCO project, so we should follow the suit in that line, that's why the bid has extended up to third week of October.

Parikshit Kandpal: But this litigation has been going on for quite some time now.

Management: That is BHEL issues; nothing to do with us as we are positioned well in terms of the L1 position in terms of validity being extended.

Parikshit Kandpal: Any costs escalation or anything like, I mean, our margins are still protected in that project, so what's the update on that?

Management: That we maintained, we are maintained on that.

Parikshit Kandpal: Okay. And sir, we have not bid for the recent elevated metro project in Mumbai, so are we more or less done with the orders we have won recently where we are not bidding further for this segment?

Management: MD will answer this.

Adun Saraban: See, there is one thing, that is our strategy, that is try to have the full mix of the project not any one particular segment in this. Today we believe that the metro, essentially the elevated segment, that is backing a good amount of orders, so we will be more selective on the way forward, but we will not completely close for this segment. But we feel if there is a better opportunity, we will definitely quote.

Management: Just to add Parikshit, if you see from the second quarter last year, we were at 250 crore level in the metro, in terms of elevated we are close to about 4500 crores, a fairly kind of lead we can see in terms of the orders that we have done in less than 12 months.

Parikshit Kandpal: And sir, are we looking at the UP as a state, because I think we had participated in one of the elevated package, in the phase 1 of Lucknow Metro, so what is your view on that geography? In that state, because a lot of projects are going to come on the metro side, I mean, phase 2 of Lucknow Metro will be coming somewhere mid of next year, then Kanpur and Varanasi will also see light of the day in next couple of years, so what's our view on this strategy of UP?

Adun Saraban: Yeah, see, Parikshit, that is not just UP particularly, every state, that is wherever that is that could give us opportunity and foothold, we will pursue it and we will be there. UP is one of the states if you focus today, it is not just only the metro, in other segment also. It is like Bhopal, like, even you see today, the BMRC, the

phase 4, I believe that by the end of this year, that is going to come up again and Pune project, Nagpur Metro, this is all big cities, I mean, coming in the second tier of cities, that is all the metros are going to come up. And for sure, we will participate as and when we will see if opportunity for us is there.

Parikshit Kandpal: And sir lastly, if just you can comment on the GST implementation in the company and are we seeing any hiccups in terms of execution or billing during this quarter because of that? So how has been the transition, if you can share your views on that?

Management: We are working very closely with all our customers on this GST matter. They have sought a number of clarifications from us on how it is going to impact the contract and they are also looking at it contractually, but as of now we are not seeing any major hiccup due to GST in our operations.

Parikshit Kandpal: Okay sir. That's all from my side. Adun sir, if you have any closing comments, if you can share, and then we can close the call.

Adun Saraban: Yeah, as I said in the opening remark, that is for sure on the way forward, that is with our strategy we will clean up the slow moving receivables and improve liquidity and try to be more focused on the selective bidding projects to ensure sustainable growth. We are strengthening our operating procedures, safety and quality of projects for sustainable growth of the Company. Thank you.

Parikshit Kandpal: Okay. Moderator, you can close the call now.

Moderator: Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may all disconnect your lines now. Thank you and have a good day everyone.

Note:

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