



“Power Mech Projects Limited Q3 FY2022 Earnings Conference Call”

February 02, 2022

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Moderator: Ladies and gentlemen, good day and welcome to the Power Mech Projects Limited Q3 FY2022 Earnings Conference Call hosted by Nirmal Bang Equities Private 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Bhandari from Nirmal Bang Equities Private Limited. Thank you and over to you, Mr. Bhandari!

Mayank Bhandari: Thank you, Nirav. Nirmal Bang Equities welcomes you all to the Q3 FY2022 results conference call of Power Mech Projects Limited. The management is represented by Mr. S. K. Ramaiah, Director, Business Development, and Mr. J. Satish, Chief Financial Officer. I now hand over the call to the management for their opening remarks post which we can take questions from participants. Over to you, Sir!

J. Satish: Thanks Mayank. This is Satish here. Good afternoon all and thank you, everyone, for joining for the earnings conference call for the quarter and nine months ended December 31, 2021. Before I begin, I would like to wish you a Happy New Year and hope that you and your family members are keeping safe.

Along with me, I have Mr. S. K. Ramaiah, Director of Business Development, and SGA our Investor Relations Advisors. This quarter ended on a positive note with a good amount of order addition and execution going smooth from Q2 FY2022. We saw the COVID situation improving drastically with the ramp-up in vaccination numbers across the country and even at our sites. Q3 was relatively smoother before the impact of omicron came into play at the start of the New Year. We continue to proactively follow all the necessary guidelines to safeguard our employees at all our sites as well as ensure that construction and maintenance are running smoothly. We have seen a number of COVID cases going up across all our sites; however, it was not severe and execution was not impacted at all. With the thrust on infrastructure development throughout the country and even in the recently announced budget, the number of opportunities especially for established and recognized players like Power Mech is significant given the multi-prong approach adopted by the company over the past few years. Each of these segments offered tremendous growth opportunities in alignment with our long-term objective and targets and to update you with this quarter's development before we open up the floor for your question and answers.



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The reported total income for Q3 FY2022 is around Rs.650 Crores and the EBITDA is Rs.72 Crores and the PAT is around Rs.33 Crores whereas Q3 of last financial year, the total income was Rs.518 Crores and the reported EBITDA was Rs.31 Crores and PAT was around Rs.3 Crores. The revenue mix for Q3 for this year is as follows. Erection business has contributed around Rs.127 Crores, civil around Rs.268 Crores, operations and maintenance Rs.226 Crores and the electrical business added close to Rs.25 Crores and other income is around Rs.4 Crores.

In the same quarter in the previous year, the mechanical business contributed Rs.133 Crores, civil around Rs.184 Crores, operation and maintenance Rs.171 Crores, and electrical business Rs.19 Crores. Similarly, year to date, the reported total income for nine months FY2022 is around Rs.1822 Crores. The EBITDA is around Rs.206 Crores and the reported PAT is around Rs.91 Crores. Whereas in a similar period for the last financial year, the total income was Rs.1142 Crores marking a 60% rise. The reported EBITDA was negative by Rs.21 Crores and PAT was negative by Rs.81 Crores post adjustment of minority interest.

The revenue mix for nine months is as follows, erection business has contributed around Rs.370 Crores, civil close to Rs.775 Crores, operations and maintenance Rs.587 Crores, and the electrical business Rs.76 Crores and other income is close to Rs.15 Crores.

In the same period in the previous years, the mechanical business contributed Rs.280 Crores, civil it is around Rs.358 Crores, O&M business around Rs.438 Crores, electrical around Rs.50 Crores, and other income were around Rs.14 Crores. The performance has been in line with our internal expectations with the topline going up by almost 25% year on year and 19% on a quarter on quarter basis. In addition to the quarterly performance meeting estimates, we would like to highlight the annual guidance given earlier still continues to be on track and will be met on all parameters. This is further expected to solidify on the foundation of a strong order book, recent order wins, and a healthy pipeline of exciting orders identified by our internal business development team.

Depreciation cost for the nine months comparatively remain flat due to reduction in the CAPEX during the period and during Q3 the finance cost is around Rs.19.8 Crores with the increase in utilization of nonfund based limits and for nine months the cost is around Rs.55.8 Crores whereas during the previous year for nine months the cost was around Rs.57.9 Crores. There has been a reduction for the nine months comparatively. The cost for Q4 is expected to come down both in terms of absolute numbers and as a percentage



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to the topline. During the next few quarters as a percentage of the finance cost, we are further expecting that it should come down as a percentage to the topline.

Going to the balance sheet and working capital cycle, the receivable cycle continues to be in the same range and monthly collections significantly improved from Rs.200 Crores plus to Rs.230 Crores to Rs.240 Crores on average per month. Moreover, the cash flow from operations during the tough time continues to be positive which is around Rs.34 Crores and we are expecting this trend to continue for us. The CAPEX for the nine months is close to Rs.15 Crores whereas last quarter it was Rs.22 Crores so for the year we are expecting close to Rs.25 Crores which is more or less in line with last year the gross debt is around Rs.540 Crores whereas as on 31st March it was Rs.509 Crores and the net debt has come down to Rs.390 Crores more or less flat. It has not increased much in spite of the increase in the order book and increase in the execution level. The order backlog for the company as of December 31, 2021, stands at Rs.7497 Crores excluding the MDO order and if we add the MDO project this stands at Rs.16,791 Crores and we are confident of making our order inflow target of Rs.4000 Crores including the projects which are already on L1 stage so they are more or less the target of Rs.4000 Crores we are very much confident of achieving. In the next few days, we are expecting L1 to be converted into LOA pertaining to the growth. Even at a modest execution rate now that the monsoon season is over, we are geared up to capitalize on the growth momentum in the infrastructure space and more than deliver on our set target. This forms a strong base for our confidence going forward with a good liquidity position in the order book and measures in place to manage projects in this uncertain environment. Now I request Mr. Kodandaramaiah to add a few more developments. Thank you.

S. K. Ramaiah:

Thanks Satish. As Satish updated on the financials, and coming to various aspects of the marketing, business development and our position is that, at the end of 2020-2021 the backlog was Rs.7333 Crores and in the current three quarters we added Rs.1971 Crores mostly in the O&M and the Civil segment after taking into conversion what happened in the three quarters, the backlog of order is Rs.7497 Crores mostly driven by civil work and some of the key O&M orders we have received. In the third quarter of 2021, the order booking was Rs.687 Crores and the current year third quarter it is Rs.1628 Crores and there are lot of offerings coming in the Q4.

Coming to the various aspects of the segment-wise analysis, ETC there is not much growth in that. Of course, the backlog has come down from Rs.2369 Crores to Rs.2080 Crores minus 12%. The civil backlog has gone up from Rs.3584 Crores to Rs.3966 Crores which is 10.6% growth. O&M there has been an appreciable jump from Rs.1168



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Crores backlog to Rs.1316 Crores up to Q3 and then electrical not much of headway that is how we are looking at the business for the time being, but overall that is without the MDO. Once the MDO of the Kotre Basantpur is taken, the total expected lifetime of Rs.9294 Crores revenue, the backlog stands at Rs.16791 Crores, and with the order booking, stands at Rs.11265 Crores at the end of the 3rd quarter. Of course, that will come mostly on a recurring business model from 2024 onwards in the first year of the operation and in the sixth year with the expected revenue peaking at around Rs.400 Crores which will add to the O&M segment of the business. There are some key orders in the pipeline. The railway work in Baroda, then Khurja CHP, Rs.178 Crores and some O&M jobs with NTPC and then major drinking water project is UP nearly about 450 villages around Rs.1400 Crores and there are a couple of other O&M jobs are also expected. Therefore, we are quite bullish on order booking in the current year also. Last year we had a very good order booking and this year also we are confident. Last year the order booking was about Rs.4638 Crores and with the present order backlog and excluding the MDO and the new orders it is expected we are still hopeful of getting it at plus Rs.4000 Crores. Therefore that should give a lot of leeway in terms of the backlog at the end of the year of nearly Rs.8800 Crores to Rs.9000 Crores and that should take the revenue generation to a much higher scale in the coming years.

Now coming to the business progress is that I think the present focus of the business is mainly the domestic segment because of the huge investment is taking place as part of the National Infrastructure Pipeline, Gathi Sakthi scheme which, has been renamed and opportunities are coming in a big way in infrastructure and then some of the investments are also coming in the private sector. The international business there is not much of headway because of the outside environment and the backlog of the domestic stands around Rs.6825 Crores constituting 90% of the backlog and balancing 10% international and this is excluding the MDO. Therefore, the power to nonpower ratio is at Rs.4800 Crores in the power sector mainly driven by the jobs we have taken in the O&M and some of the civil jobs we have taken and nonpower is Rs.2687 Crores that is 64.2% and 35.8% and also the new jobs that have been added in the pipeline so far in the quarter mostly well driven by the O&M side that the Singareni 2x600 megawatts of 343 Crores, Tuticorin 2x600 megawatts of Rs.391 Crores, IL&FS at Cuddalore Rs.51 Crores and then earlier we had taken Jharsuguda also that was in the last year. In these three major projects, we have grown in O&M conversion. Apart from Adani road project, Kodad-Khammam Rs.645 Crores, Udangudi 2x660 megawatt civil work because it was not executed by other agency on a risk purchase basis that has been given by BHEL for Rs.345 Crores, NMDC two packages for Rs.146 Crores in civil and miscellaneous work and the Talabira EPC job of the material handling about Rs.80 Crores and then



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Kahalgaoon FGD civil works was Rs.112 Crores, North Chennai then FGD works and some railway works and some of the miscellaneous jobs in the Barh Doosan installation work. Therefore all these add up substantially for the year and the major aspect of the business is driven by the infrastructure initiative coming up obviously and that is how the business also has been diversified. The major focus is on the water and the drinking water opportunities also. At present we are executing two major jobs in Bulandshahr 195 villages and Etwa in UP for 449 villages of Rs.1288 Crores. We have completed in the current year of Rs.160 Crores and there are STP projects under completion in various stages and hydro jobs therefore the entire water segment of drinking water, sewage treatment plant, and the miscellaneous hydro jobs come to Rs.1470 Crores and that is well driven by the new investments coming in the drinking water systems.

Now coming to the MDO Kotre Basantpur project this is of capacity of 5 million tonnes to be reached in the sixth year from the date of award that is in June and July and then it is on a consortium basis for Rs.9294 Crores with AMR India Ltd. Then a special purpose vehicle has been created called KBP Mining Private Limited and the initial developmental work is in the progress. By 2024 the first initial operations should commence and then the full capacity of 5 million tonnes should reach in the sixth year from 2021 onwards and it is an open cast mining and that should come as a good recurring business model for the O&M segment of business.

Now coming to the major projects that we are handling, Barh we have completed about 80% out of 245 cr, and Bhusawal about 47% we have completed out of Rs.285 Crores. Then cross country pipeline completed nearly around 80% and then major job what we are doing in Maitree for BHEL and NTPC of Rs.855 Crores the progress is pretty good. We have reached 55% of completion. Then Yadadri also is in the full swing of Rs.806 Crores about 26% progress is there. There also progress is good. Then JSW balance jobs whatever is there 65% we have completed. The balance mostly we have to complete in Bellary segment.. Then Dangote progress has been pretty good \$76 million, 90%. I think in a couple of months this job should come to an end. Ramayampet canal 60% of Rs.373 Crores as an irrigation project, Sadalpur power electrical about 66% out of Rs.350 Crores. Then Buxar boiler from L&T Rs.176 Crores there has been a little bit slow down because of the civil inputs are not available. Only 10% has been completed. The other electrical jobs that we have taken are Rs.230 Crores, 140 Crores we have completed. The drinking water ongoing Rs.1288 Crores about 5% of the work has been completed. The EPC job what we have taken from Adani Kurmitar about 14% of work has been completed as on quarter-end. Then the national highway projects of the Hassan and



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Mizoram both together about 18% work has been completed. Now Khammam Kodad project of about Rs.645 Crores that work has to be taken up now.

Now railway jobs, the RVNL Gudivada Machilipatnam has been almost completed other about Rs.330 Crores of job is under various stages of completion five packages so this is the status on various jobs.

Now the focus of the business will be aligned with the Gati Shakti program of investments and also private investment. We are also tracking the investment coming up in the private sector particularly Adani Group. As I told you Rs.280 Crores of jobs we have taken on the new segment of the EPC and we are working on a couple of projects with them including the possibility of any FGD tie-ups with them also. That we have to see how it will take shape and we are discussing it with other players also in the private sector for FGD opportunity and then the focus is also on the O&M segment in the PSU where PSUs are putting a lot of efforts in optimizing O&M costs and outsourcing, therefore NTPC already we have made headway there. Singareni what we have taken recently in Raichur and these are the new initiatives that have come in the public sector apart from the private sector. New Investments in the steel plants also expected we will take the experience that we have gained at JSW and JSPL. Arcelor Mittal is coming with an investment of Rs.1.5 lakh Crores for a Greenfield project in Odisha and also a Brownfield project in Essar Hazira. Then there are a lot of mining opportunities. We are pursuing it with Adani and other opportunities. There is a huge opportunity in material handling about more than 10,000 Crores and then ongoing FGD opportunities are also there. Then conventional power plant a few opportunities are their leftover jobs what we can say in Khurja and some of the jobs which have to be tendered out but the major project is expected from Neyveli Lignite Corporation at Talabira that is 3x800 megawatt that should happen next year so some opportunities should come up in that project. In the export, there is not much of headway as of today but the O&M story is pretty good. What I can only say is that with the three major jobs what we are doing and lot of repair and maintenance jobs in the pipeline, but adding into something significant amount. Perhaps the total order book should end up at by the end of the year to nearly Rs.1000 Crores. That should give better visibility for the next year in terms of turnover and also better margins. This is what I would like to say in my remarks. Thanks, everybody.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Puneet from HSBC. Please go ahead.



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- Puneet:** My question is with respect to the RTC bid that you put under the SECI tender for Rs.3.30 paise can you talk a bit about the strategy there and the funding where you will procure power, etc., from?
- J. Satish:** That has not been fructified so we wish to be bit selective and as of now there is no thought to pursue further.
- Puneet:** But you did put a bit right? Just trying to understand you might put something like that in the future as well? What is the strategy behind it and where will you likely source it in terms of funding and power?
- J. Satish:** Funding, of course, multiple opportunities are there because the green energy the funding lines are multiple opportunities so we had thought of exploring one opportunity with the back to back arrangement, but now that is not getting fructified as of now there are no tenders which are impacting which are pursing so we wish to be slow on this front now.
- Puneet:** So when this bid opens up you will not bid again is that?
- J. Satish:** As of now that is the thought process because some orders have now lined up. Now, apart from that we have identified another Rs.20,000 Crores of opportunity so the opportunity side where we were seeing some good expecting orders slowly we may go in that front.
- Puneet:** But this was anyways a completely different line of business right? From project development to power developer or ownership?
- J. Satish:** From construction to more like a developer.
- Puneet:** Yes so how are you thinking about it unless you are saying that you will not bid for it again?
- J. Satish:** As of now we have no plans to bid for.
- Puneet:** So the SECI tenders which is supposed to come out, you will not bid for that at all?
- J. Satish:** Yes.
- Puneet:** Understood, but what kind of IRR would you have looked at when you previously bid for it and where would you have sourced the power from?



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- J. Satish:** The IRR is around 16% to 18% plus. That was the thought.
- Puneet:** And sourcing of power would it have been a mix of thermal plus renewable?
- J. Satish:** It would be more like renewal only.
- Puneet:** And the RTC part would it have been possible just with renewable?
- J. Satish:** Yes that was the thought process.
- Puneet:** Understood. That is very helpful. Thank you much.
- Moderator:** Thank you. The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.
- Rishikesh Oza:** Sir given the order book guidance that you have given for this year-end would it be fair to say that we can do around Rs.3300 Crores plus revenues for the next year?
- S. K. Ramaiah:** Yes. I think with the present order flow expected also I told you plus Rs.4000 Crores by the end of the year assuming more projects in the pipeline the backlog of the order book will go up to nearly Rs.8800 Crores so this year as Satish has projected maybe we will be reaching plus Rs.2500 Crores revenue in the current year. Last year the backlog was Rs.7333 Crores. Therefore in the coming year, it will be Rs.8800 Crores to Rs.9000 Crores so it is safe to assume that we will achieve at least plus Rs.3000 Crores of conversion next year.
- J. Satish:** Assuming 38% to 40% conversion because if you see historically it is almost 40% plus. If you take 38% to 40% range we are confident of converting the opening order book.
- Rishikesh Oza:** That is what I am saying like about Rs.3300 Crores plus revenues will not be a problem correct?
- J. Satish:** Yes.
- Rishikesh Oza:** My second question is regarding our EBITDA margins so what EBITDA margins are you looking for next year?
- J. Satish:** It is going around 11% plus and we are expecting this number to go up maybe another three quarters it would take to improve seeing the order book on hand and in some of the



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projects where we are losing fees towards credentials . Also now the mix is coming down. Probably second half of next year onwards we can see the numbers improving. Till that it will be within the range of 11% to 12%.

Rishikesh Oza: Sir this quarter our employee cost was also high so any comments here? Is this is a one time or a recurring cost?

J. Satish: The increase in manpower cost is because of two reasons. One is the order book in terms of O&M has gone up. The revenue of top line has also gone up so we have recruited some more. Number two is some of the employees who were on subcontractors role, we have taken them on Power Mech's payroll. So there is a shift from sub contractors to Power Mech.

Rishikesh Oza: Last question Sir we have almost Rs.2000 Crores of ETC order book and like our conversion is like you know almost around Rs.127 Crores or something and it has not crossed our pre-COVID levels also as of now while O&M and civil are doing well. They are growing so any comments here why are we converting very less over here and when can we see any recoveries from here.

S. K. Ramaiah: I think one is the cycle time fixed by the owners, by the EPC contractors also ranging from 36 to 40 plus months, particularly this higher capacity unit if you see 800 megawatt units. It has got a longer cycle time up to 40 months and therefore the conversion is just a little bit elongated, but we have to understand there was a COVID disturbance whatever is there for the last few years and with the present backlogand covid pandemic reducing next year perhaps we should break that cycle. We should achieve around Rs.600 Crores to Rs.700 Crores in the next year.

Rishikesh Oza: That is good. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Pratiksha from Aequis Investment Consultancy Private Limited. Please go ahead.

Pratiksha: Good evening. Sir, I have two questions. One is that since our order book in civil is heavy what is the margin profile in civil? Do you see a deterioration because civil works literally have a lot of competition and the margins would drop?

J. Satish: In civil, the focus will continue to be on selective basis water and railways, these are the major component. Now our order book is full and for the new orders, we are not taking



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anything less than 12.5% to 13.5%. These are all working in the range of 11.5% to 12.5% so going forward we will not quote anything less than 13% that is the plan.

Pratiksha: Less than 10.5%?

J. Satish: Today it is working at around 10.5% to 11.5% and going forward the new quotes whatever we are doing, it is all in the range of 12.5% to 13.5% plus.

Pratiksha: Sorry 13.5% to?

J. Satish: 12.5% to 13.5%.

Pratiksha: In the new bids?

J. Satish: Yes.

Pratiksha: What will be your area of these new bids like which segment we are looking at more traction at?

J. Satish: One is railways both the signaling and track laying, culverts and bridges. This is today close to 5% to 6%, but we intend to go up to 12% of our total revenue and of course water and STP. That is doing good now. We have a good amount of pie in the water business. That may continue to be around 10% plus going forward. These are the two areas that will contribute a significant pie in this civil segment.

Pratiksha: I am just letting you know that water you are seeing 10% growth and railway segments, we are seeing that from 6% of the total revenue the share will increase to 12% am I right?

J. Satish: The railway is expected to be 10% to 12% of our total business and water is also going to be 10% of our total business.

Pratiksha: What will be the receivables and the payable days and specifically the BHEL receivable days?

J. Satish: On an average 75 days our receivables and the payables are more or less aligned to the receivables for all the projects. These are running in the range of 70 to 80 days. BHEL of course is working around 90 to 95 days and this trend may continue for few more quarters because of BHEL cash flow cycle but in the case of Maitree, international



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projects working around 65 to 70 days so less than 70 days whereas in India it is working around 90 to 95 days.

- Pratiksha:** How much percentage of our order book or the execution is left for BHEL order?
- J. Satish:** 16% to 18% as of now. Probably next year, it will come down to 13% to 14% with the increase of other orders.
- Pratiksha:** The Rs.4000 Crores order inflow which we are seeing or targeting what will be the major portion of that?
- J. Satish:** Almost close to Rs.2000 Crores we have already added. Now left out is close to Rs.2000 Crores. Of that Rs.1700 Crores is already L1 stage so Rs.1400 Crores to Rs.1500 Crores is in the water segment.
- Pratiksha:** Break-up of the incremental Rs.2000 Crores order inflow?
- J. Satish:** It is around Rs.1500 Crores is in the water project, which is almost in the L1 stage. Apart from that another Rs.230 Crores, one is in railway segment. That is close to Rs.113 Crores and Rs.120 Crores is BHEL. That is for civil work related to an FGD project
- Pratiksha:** This is entirely for civil business Sir?
- J. Satish:** This will fall entirely in the civil business close to Rs.1700 Crores. Apart from that, some more projects are in discussion so which we are expecting to follow so the target of Rs.4000 Crores for this year we are confident of achieving.
- Pratiksha:** Thank you, Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Darshill Jhaveri an Individual Investor. Please go ahead.
- Darshill Jhaveri:** Good evening. Congratulations on a good set of numbers. I wanted to ask when do you think we can reach a Rs.4000 Crores company and what do you think our total margin will be for the next year blended margin if a rough ballpark?
- J. Satish:** Next year, we will be crossing the Rs.3000 Crores mark that is very much obvious and it is possible because of the strong order book and in terms of margin front now it is ranging in the range of 11.5% and that trend is expected to go up further post Q2 of next



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year. There is a possibility that there could be a good jump because some of the projects where we are losing royalty and all. That we did not spend because we have built enough experience and there could be some saving in terms of COVID related expenses because though the sites are running smoothly still some cost relating to the COVID protocol safety we are spending and some amount of cost towards material increase and all which we have absorbed during this quarter and next year quarter also we are trying to absorb some cost, but going forward all the new bids we are quoting considerably new price so maybe FY2024 there is a possibility of reaching your number.

- Darshill Jhaveri:** Thank you Satish Sir. Nothing further from me.
- Moderator:** Thank you. The next question is from the line of Mayank Bhandari from Nirmal Bang Equities Private Limited. Please go ahead.
- Mayank Bhandari:** Sir this Mayank. Sir, I just wanted to understand the opportunity that we are exploring in the FGD business and how is the market panning out, and what are you are pursuing in the FGD particularly?
- J. Satish:** Mr. Ramaiah is there online or disconnected.
- S. K. Ramaiah:** Regarding this FGD, we have already taken the initiative. We have taken a job in Kahalgaon. Then North Chennai of Rs.120 Crores is expected now. The order is at any time it is due and we are also discussing with some of the private players. They want to retrofit the FGD systems with some understanding and collaboration. We also have started some dialogue with Adani also. Therefore the outcome of these things will be known in the next couple of months, but whatever opportunities are there to the extent possible we are pursuing is based on how much margins we can derive in this segment because we are also having so many other opportunities in infrastructure side, therefore, we have to be selective on this also.
- Mayank Bhandari:** How is the margin profile looking there in the FGD orders?
- S. K. Ramaiah:** I think as Satish has rightly said we will try to achieve this 13% to 14% EBITDA margins minimum.
- J. Satish:** Below that, we are not quoting now Sir because the order book is quite full. On the irrigation front also we have taken what we wanted so going forward we are not quoting anything less than 13% to 13.5%.



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- Mayank Bhandari:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Rajnish Mehan from Master Capital Services Limited. Please go ahead.
- Rajnish Mehan:** Good afternoon. Congratulations on a good set of numbers? Sir, I wanted to know what is the debt position currently?
- J. Satish:** Sir today the net debt is Rs.390 Crores. It is more or less the same as what it was there on March 31, 2021, in spite of the increase in the order book and execution we try to maintain at the same level and at a gross level, it is around Rs.500 Crores plus.
- Rajnish Mehan:** Do you see any reductions next year?
- J. Satish:** We are working towards that. There will be some reduction and you will also see that in terms of finance cost as a percentage you will see some good amount of reduction in terms of absolute numbers and also percentage.
- Rajnish Mehan:** Okay Sir thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek Poddar from HDFC Mutual Fund. Please go ahead.
- Abhishek Poddar:** Thanks Sir. Congratulations on a good set of numbers. Could you please discuss the working capital movement during the quarter?
- J. Satish:** Sir from the receivable front excluding BHEL we continued to be 75 to 80 days and whereas BHEL domestic it is close to 90 to 95 days that is the receivable whereas Maitree, Bangladesh it is less than 75 days and inventory front more or less it continued to be around 20 to 22 days because still it is in the range of Rs.150 Crores to Rs.160 Crores that will be the range of peak inventory and from the payable side it is around 70 to 80 days and that is expected to slightly come down so for the year Q4 there may be a slight reduction in terms of the receivable days by at least five to six days so net current days it should come down. If you see like March 31, 2021, it was around close to 195 days net current days. That has come down to 170 days now. That may come down to 165 days overall taking the retention money and other line items.
- Abhishek Poddar:** 165 days by March 2022?



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- J. Satish:** Yes March 2022 and the first half you will see next year it may further come down because most of the projects were closing a good amount of final bills are coming from the retention money. Number two as mentioned the BHEL pie also is coming down so with that it may help further to bring down the numbers so the thought process is to at least to bring down the net current days to at least 120 or 135 days next year.
- Abhishek Poddar:** Last part you were saying Sir it will be coming through BHEL?
- J. Satish:** BHEL pie is coming down Sir because in domestic the BHEL pie, the collection days it is ranging 90 to 95 days. With the BHEL pie coming down and the final bill especially from the retention money retention happening you will see that with the change of the business mix may be next year this number should come down at least to 135 days that is the plan we have and we are working towards that.
- Abhishek Poddar:** Understood Sir and Sir regarding the margins how much is the element of higher commodity cost and lower margins? What is the impact of that?
- J. Satish:** If you keep aside the O&M and the service component and the projects which are having the material component, some part are cover by the PVC but around 20% to 25% is still like fixed cost component so overall Q2, Q3 and Q1 we had an impact of close to 0.4% to 0.5% and Q4 also we are expecting the same. Going forward you will see that the maximum the projects are having the impact that will come down and the projects which we have taken recently and all it is all in built the new prices so we will not have much impact. As of now, it is in the range of 0.4% to 0.5%.
- Abhishek Poddar:** The old contracts will get over by one or two quarters?
- J. Satish:** Yes substantially it will come down. 25% may come down to 5% or 6% so you will see that next two quarters onwards that impact will settle significantly.
- Abhishek Poddar:** Just one more question Sir. Regarding the FDG opportunity what is the total opportunity size that we are bidding Sir and some expectation that how big this could for the next one to two years?
- S. K. Ramaiah:** Already substantial orders have been taken away by EPC players and all. What we can be looking at is working for EPC players wherever we are working in nearby sites and place where we can deploy our resources. Then if you look at the private players they have not made a major investments and that they will be compelled to do it because of the deadlines fixed and bit extended from 2022 to 2024 for meeting the dead lines. If at all



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we try we will try in the private sector with the understanding with Adani and some of the private players.

Abhishek Poddar: Sir how large are the orders we are looking at?

S. K. Ramaiah: There are two ways of doing this. One is that we work as ETC contractor or a civil contractor to them. That order can be in the range of Rs.100 Crores to Rs.150 Crores for each of these projects, but if you work on a tie up basis with the technology tie up and then understanding to do on EPC basis. Then that can be something like Rs.40 lakhs to Rs.50 lakhs per megawatt.

Abhishek Poddar: So both the options are open?

S. K. Ramaiah: Both the options are open.

Abhishek Poddar: Understood Sir. All the best Sir. Thank you.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL Capital Limited. Please go ahead.

Anupam Gupta: Can you give some clarity on the capex requirements for the next two years and also the equity which you have for the next two years?

J. Satish: The capex this year we have plans for Rs.25 Crores so already we have spent Rs.15 Crores so another Rs.9 Crores to Rs.10 Crores we will spend in Q4 so the capex will be close to Rs.25 Crores max of Rs.25 Crores and next year it may go up to Rs.35 Crores to Rs.40 Crores.

Anupam Gupta: The equity commitment?

J. Satish: The equity of course this year it is not much but next year it may be at Rs.25 Crores to Rs.30 Crores. We may need to plan for the MDO project.

Anupam Gupta: But MDO project also you will consolidate right so it should appear as equity or how will it come into the books?

J. Satish: 74% is held by us so it will form part of our subsidiary company, so it gets reflected in our consolidated balance sheet sir.



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- Anupam Gupta:** Understood and in terms of the new orders and the new segment which you are taking so civil obviously has gone up significantly? Do you see a risk of working capital pressure there incrementally or do you do not see that happening?
- J. Satish:** The new projects it is very clear. The strategy is like we wish to take projects only where we have comfort in terms of the collection and all so the BHEL pie though we know the customer quite well and we understand the project and all but in terms of payment cycle it is a bit stretched so the thought process is to bring down that pie so we will not take any project which are milestone linked or where there is pressure from the customer or there is no back to back funding and all. The new project the first priority is the receivable cycle that needs to be 30 or max 60 days and not beyond that and next of course the margin front. These are the two criteria's when we chose any project. We are going on that thought processes. In the recent past we are losing almost like 2% to 4% in terms of buying the credentials and paying the royalty and all. Now we have built our expertise in house. Now that will be straight forward saving so I think those 13% to 13.5% it is quite possible in the margin front with the comfort of 60 days payment cycle.
- Anupam Gupta:** Just one last question. What will be your effective tax rate for 2022, 2023 and 2024?
- J. Satish:** Sorry Sir can you repeat.
- Anupam Gupta:** What should be your tax rate? Should it be 25%?
- J. Satish:** Yes it will be 25%. There is no change in the recent budget also. I think there will not be change even next year so that is the range we have to factor Sir because some of the international projects it is less than 25% so on a consolidated basis it should work 23.5% to 24%.
- Anupam Gupta:** But next year Sir international sales comes down your tax will change?
- J. Satish:** Yes. It is possible Sir because last one and a half year we have not added much from the international space so the pie looks it may come down next year so on a consol level the difference may be hardly 1% or 1.5%.
- Anupam Gupta:** Thank you. That is all.
- Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Mayank Bhandari for closing comments.



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- Mayank Bhandari:** We thank the management for taking time out and sparing their valuable insights on this call. We also thank all the participants for their presence. Sir do you have any closing remarks.
- J. Satish:** Thank you every one for joining the call and the presentation is already uploaded at the website and anyone wish to have some more clarification they can always reach to me directly for a one to one discussion or for any other clarification and we will come forward with more updates in Q4. Thank you very much.
- Moderator:** Thank you very much. On behalf of Nirmal Bang Equities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.