



“Power Mech Projects Limited Q1 FY2022 Earnings Conference Call”

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- Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY2022 Earnings Conference Call of Power Mech Projects Limited 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 '*' 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. Thank you and over to you Sir!
- Mayank Bhandari:** Thank you Rituja. Nirmal Bang Equities welcomes you all to the Q1 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!
- Jami Satish:** Thanks Mayank. Good evening all friends and thank you all for joining the earnings conference call for the quarter ended 30th June FY2021-22. Along with me I have Mr. S. K. Ramaiah, Director, Business Development and also Jigar from SGA, our investor relation advisors. We hope you and your family members are safe, healthy, and continue to take all the precautionary measures necessary to keep COVID-19 at bay. The quarter began with a lot of promise and offered the hope of continuing the momentum gathered in last quarter of FY2021. We would have all noticed the execution level during Q4 of last year was all time high in the journey of Power Mech, the execution level in a year is cyclical for our industry, Q3 and Q4 normally add more turnover as compared to Q1 and Q2 in a year. This year Q1 again we demonstrated all time high execution level for the first quarter in the journey of Power Mech history, this gives us lot of confidence in our operations for the rest of the year. During second wave of COVID, there were no shutdowns in sites or major disruption like the first wave last year, it still met the company adopted cautious approach to operations. We continue to follow all necessary guidelines to safeguard our employees at all our sites as well as ensuring that construction and maintenance of operations are run smoothly. With the trust on infrastructure development throughout the country, the number of opportunities, especially for an established and recognized player like Power Mech are significant, given the multidomain efforts adopted by the company over the past few years, each of the segment offered tremendous growth opportunities in alignment with our long-term objectives and targets. More importantly the company is no longer restricted by geographical limitations and with a proven track record has made a pan India presence and the coming few years we will see deepen its existing and widen its potential international presence too.

To update with you this quarter's development before we open up the floor for your question and answer session. The reported total income for Q1 FY2022 is Rs. 628 Crores and EBITDA is Rs. 71 Crores and reported PAT is 31 Crores whereas Q1 of last financial year, the total income was Rs. 276 Crores, the reported EBTIDA was negative by 12 Crores and PAT was negative by Rs. 33 Crores and the revenue mix for Q1 FY2021-22 is as follows, mechanical business has contributed Rs. 137 Crores, civil around Rs. 285 Crores, operation and maintenance close to Rs. 173 Crores and electrical business added Rs. 28 Crores, and other income close to Rs. 6 Crores. In the same quarter during the previous year, the mechanical business contributed Rs. 60 Crores, Civil was around 74 Crores, O&M 120 Crores and electrical business was Rs. 20 Crores. The execution cycle is on a continuous upfront over the last two quarters of the previous year, this quarter the momentum briefly maintained at a healthy level, while it cannot be compared to the same quarter last year sequentially over the quarter the execution was 100% during Q1 of FY2021-22. Now you would have all seen Power Mech has developed a bandwidth in terms of infrastructure and capability to execute large projects in the range of Rs. 600 - 800 Crores per quarter and earned the credentials to take on projects without partnering with other players in most of their views. This would not just cement the company's position as a credible player but also add to the margins going forward.

Coming to the finance cost, it has been on the downward trend because a lot of measures taken by the management in terms of maintaining debt level and the present net debt level stands at 330 Crores as of now, similarly receivable cycle is continued to be around 65 days to 75 days including BHEL and AMTZ project and the change in the receivable cycle is due to change in the business from the customer mix. The monthly collection cycle continued to be healthy in the range of 200 to 230 Crores per month, this we have noted in the last four to five months and this can be improving month on month. We ended the previous year on a high order inflow and order book position and the momentum will continue during the year too. We have been able to close some very good quality orders and are working on order long-term orders across all our business vertical. Overall, the company added close to Rs. 9637 Crores of orders during this quarter. Considering these orders, the order backlog today stands at Rs. 16348 Crores including MDO project and the present order backlog stands at Rs. 7054 Crores if we exclude the MDO project. This gives a healthy order book for the execution cycle that was one of the reasons Q4 of last year and Q1 of this year has been healthy and the momentum cycle will continue to be healthy and guidance given in Q4, we are confident that the target we have set for the management will continue to stand.

Now I request Mr. Kodanda Ramaiah Sir to add few more developments. Thank you.

Kodanda Ramaiah:

Thanks everybody. Welcome to the Q1 call of 2021-22, in continuation of update of Satish, certain developments I would like to state that. I think last year has been exceptionally good

year in terms of adding to the backlogs, over the end of the year Rs. 7333 Crores and we had seen a major addition of nearly Rs. 4638 Crores, now how to continue the journey in the present year and also that will help us to augment our conversion capabilities also that is being demonstrated in the first quarter in spite of the COVID second wave conditions. One positive thing is that you know as Satish said there are no shutdowns in our sites and we are continuing to ramp up the capacity of the man power, which had come down to during peak covid conditions of 8000 working strength has now almost doubled up, that should give us the confidence that the conversion will be on track in the current year with the backlog of orders what we have got. The key development in the current quarter has been the Singareni Collieries, signing of the O&M contract for five years. This is a very important contract of Power Mech in terms of its technologies, application, and customer requirements, it is a comprehensive O&M where we will do both the control room operation and the offsite operation, outside the control room operation that gives us a quantum jump into the O&M capability in future also to scale up the operations to take control of the control room operations also. That is a major add-on. Of course taking that into account and also the conversion that happened in the first quarter the present backlog stands at Rs. 7054 Crores. The mechanical job is Rs. 2232 Crores, civil is Rs. 3300 Crores, O&M 1339 Crores and electrical Rs. 184 Crores that is what the break of the backlog. Now in terms of the domestic and international business, the major portion is in domestic is from the orders what we accumulated in the last year, almost 87% is in the domestic side, backlog is Rs. 6189 Crores and the international is about Rs. 865 Crores, 13%. Now in the case of power to non-power, the power sector business is around Rs. 4822 Crores backlog, and the non-power sector is Rs. 1232 Crores, therefore that is how it is as on today, then of course the current plan, we are looking at lot of new opportunities based on the new investment is coming in various segments, in energy sector and in the infrastructure sector and then the metals and mineral sector. All these openings can be around Rs. 10,000 Crores of opportunities, we are presently tracking and we have submitted the offer in different segments in metals, minerals, roads, O&M and various other projects and including the railways, therefore at least the progress and the achievement should be on par with the last year with some of the key opportunities what we are tracking now is the NMDC customer where in, two major opportunities are there, one is for the mineral processing, this is the first time we are attempting a EPC technology tender, with its joint venture partner of FL Smidth of Chennai and then another tender for crushing and mineral handling process with NMDC at Kirandul and that is also we are partnering with another world leader Thyssenkrupp. These are the two major tenders. Apart from the we are also working on one more mineral processing plant for Hindustan Zinc Limited, this is in partnering with FL Smidth and presently in Khurja we have taken a lead by giving support to Thyssenkrupp for the NTPC 2 x 660 megawatt. They are technically placed on the L1 and they are expecting an order shortly. Thyssenkrupp since we have given a support for the coal handling plant

that is around Rs. 350 to Rs. 360 Crores. We hope to get that order in the second quarter. Now these are the major opportunities. In terms of current year, we are bullish on keeping our target of Rs. 4500- 4500 Crores in the various segments in installation, civil, O&M, and electrical. We hope we will meet those targets if the opportunity available. That's what I would like to say. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Pratiksha Daftari from Aequitas Investment. Please go ahead.

Pratiksha Daftari: My first question, sir this time the order inflow was particularly low I think apart from the mining order we just had influence in O&M section so if you could highlight if there are any issues with tender finalization or any other?

Kodanda Ramaiah: Not exactly madam that one tender which we are lowest along with Thyssenkrupp, they are the lowest but their order was expected perhaps in June, there was some delay in that, now maybe in the first week of September it will come that is what we hope to close that order and we are also following a couple of O&M orders also with JSW and that should also happen in the second quarter and the railways about four to five tenders we have given it, valued about Rs. 1000 Crores, at least 50% of the orders should mature out with some competition but as I said earlier there are plenty of opportunities in fact we are trying to choose the opportunities and another two to three tenders we are working with Thyssenkrupp, Pakri Barwadh about 175 Crores then Talabira about 80 Crores. I told you about Hindustan Zinc Limited also, we are working with FL Smidth. Then railway electrification jobs around 2000 Crores we are looking at it and all these things and then one road project is there, therefore with all these openings it is normally first quarter sometimes the backlog will not happen because of variety of decision making process and also tenders had to be called in the current year, which can take some lead time, therefore we hope we would be on track for the current year also.

Pratiksha Daftari: Last time sir you had mentioned that the actual availability of labor was little bit lower than the required labor, so how does this quarter look like and how do you think going ahead do you see any labor availability issue?

Kodanda Ramaiah: No I told you in my opening remarks, during the peak COVID time, we had a 50% shortfall in the labor that is first and second quarter of the 2020-2021 but now it has almost come to the normal that is why the conversion itself speaks for that, it is around 628 Crores what we achieved in the first quarter compared to last year it was almost less than 50% of that. That shows that the labor strength is more or less back to normal. In that way we should be able

to continue to get better results except maybe the second quarter because being rainy season but I am sure third and fourth quarter we will ramp up to more than 700 Crores each.

Pratiksha Daftari: Last time you had mentioned there was certain COVID related extra expenses that we had incurred and then certain impact of second wave that we were anticipating, which had an impact in the margin so do we expect that kind of expense to be more sustaining in nature and hence the margins shall stay impacted.

Jami Satish: See the margin trend now we are seeing is improving, the COVID-related expenses yes in Q1 and Q2 because we cannot ignore the protocol of the customers and the local authority so there would be some cost, which we need to incur till these things get settled down fully, maybe the quantum coming down what used to be two to three quarters back and now, in terms of expenditure it is coming down but still yes it will continue to add some cost maybe next one or two quarters will continue to be there.

Pratiksha Daftari: If you could just share the receivables as on June 30th along with retention money?

Jami Satish: Receivables around close to Rs. 495 Crores and retention money is in the range of Rs. 280 Crores to Rs. 285 Crores.

Pratiksha Daftari: 280 Crores?

Jami Satish: Yes.

Pratiksha Daftari: Net debt as on June you said is Rs. 330 Crores.

Jami Satish: Yes.

Pratiksha Daftari: Thanks a lot.

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

Anupam Gupta: My first question is on the revenue run rate Mr. Ramaiah said, was that number 700 Crores for quarter in the second half or higher than that because our order book obviously support higher than that?

Jami Satish: Q3, Q4 yes we are confident, run rate would be more or less the same what you have indicated or may be slightly more, Q2 it is a mix of monsoon and others. So Q1, Q2 you will see normally low as compared to Q3 and Q4.

- Anupam Gupta:** Okay. Secondly on the 7054 Cores order book, what portion is under execution at this point of time? What incrementally will come up in execution over the next couple of quarter, you can just share some picture there?
- Jami Satish:** Now all these projects on ground started, backlog what we are carrying all the projects have started.
- Anupam Gupta:** So Rs. 7054 entirely is under execution at this point of time.
- Jami Satish:** Under execution, so for this year FY2021-22 the execution what we were planning, substantially will come from the existing order only.
- Anupam Gupta:** Okay, understood.
- Kodanda Ramaiah:** Basically, we have started new projects, Buxar we have started 176 Crores then we have started in Kurmitar Rs. 198 crores and both projects are picking up now, water projects also started in July. Therefore, lot of projects which were bagged last year in the third and fourth quarter that conversion is going to start now.
- Anupam Gupta:** Secondly you are bidding for quite few projects with FLSmidth or Thyssen what is the nature of the partnership to be clear, what do they do and what do you do?
- Kodanda Ramaiah:** I think this is a typical partnership bringing the strengths from both the organizations, it is just on a consortium philosophy both with the Thyssenkrupp and FLSmidth we entered the consortium that is joint and several responsibilities that is the basis on which PSU accept the tender because we take the single point responsibility for entire site execution including engineering of the civil and structural portion and Thyssenkrupp is the technology partner, they will take the technology part of the entire engineering and equipment supply and overall plant engineering inflow. Then they also supervise and take care of the commission and guarantees for the entire plants once it is completed that is how it is. Similarly the relationship with FLSmidth also, which we have entered one tender we have quoted for the Bacheli on the same lines single point responsibility for Power Mech in the case of site execution including engineering of civil and structural and then plant engineering responsibility with FLSmidth and technology products and all the equipment supplies in that scope but unique thing in the case of Bacheli is that we are also doing some equipment supplies for some of the balance of plant not on the process side, non-process side like utility part, electrical control instrumentation and few of these terms all those packages we are trying to serve directly and we are tied up with reputed vendors for the same.

- Anupam Gupta:** So in this case the entire revenue will flow through your P&L and you share some margins with Thyssen and FLSmidth.
- Kodanda Ramaiah:** It is 70:30 something like that, 70% of whatever terms if it happens it will be for PMPL balance it will go to the FLSmidth whereas in the case Thyssenkrupp the ratio is slightly different, maybe around 60:40.
- Anupam Gupta:** Okay so you will have only 60% of revenue.
- Jami Satish:** It is a consortium so we will take our contract value only to the extent of our contract value only the turnover will flow.
- Anupam Gupta:** So your order book will also reflect accordingly right, order book will be 60% of the order book effectively?
- Jami Satish:** You are right sir, it is to the extent of our value only will reflect.
- Kodanda Ramaiah:** In fact this percentage and value of the contracts with the respective partners is mentioned in the bid itself.
- Anupam Gupta:** Right okay and the margins in these projects will be similar to what we generally do, 11% to 12% or slightly lower bid?
- Kodanda Ramaiah:** See I will tell you what has happened now we have given the first bid, discussions have started then negotiations will take in, negotiations means mainly with deviations, PSUs will allow initial negotiations, especially on the terms and conditions we will negotiate, but in Bachel we have completed the set of negotiations and then in the case of other tender which we are participating with Thyssenkrupp we have to start it, we would like to keep slightly better margins looking at our present order backlog but ultimately they are big ticket tenders, so we would like to see what is the best we can get it and this is under limited competition also, in both the cases only two parties are there.
- Anupam Gupta:** Okay, understand. Just one last question on the MDO order which you have won what is the sort of equity investment which you will do in the SPV and what is the capex that SPV will do in the first two years and what sort of ramp up in production and revenue do you see there?
- Jami Satish:** This project will be as you said it will be executed at SPV level, the capex and the additions will happen only at the SPV level. The first development will be over a period of two to

two-and-a-half years, over a period of time we need to infuse around 80 to 85 Crores of equity our portion of that 74% ours and 26% is JV.

Anupam Gupta: So 80 to 85 Crores is the total equity of its 74% will be our share.

Jami Satish: That has to come from Power Mech and the rest will come from JV Partner.

Anupam Gupta: And what is the total capex which they need to do, the SPV needs to do?

Jami Satish: Development cost is around Rs. 280 Crores of infrastructure and infrastructure cost we need to spend that includes CHP and other like a township, related expense for drainage, electrical system, storage etc put together will be close to 280 Crores.

Anupam Gupta: And you have the site, in terms of clearances, land acquisition all that has already been done or it is in process at this point of time?

Jami Satish: We are working as a contractor, it is the responsibility of the owner out of 1100 hectares, already 840 hectares is acquired because substantial land being notified forest land. Land acquisition is well in control now along with the developer and the owner together we are working to see that the next 6 to 8 months all approvals are in place so that we can start the ground activity.

Anupam Gupta: Just one last question, again this will be take or pay in terms of volume so how is the volume ramp up and whether take or pay is confirmed, is there an end use for this which is known for your mines?

Jami Satish: Minimum quantity is 5 million tonnes per annum that is the arrangement which is CCL has to take. They have got back to back end users. Because the coking coal there is lot of demand now, there is some sort of end user it is the responsibility of the customer and we will ensure that we deliver 5 million tonnes per annum.

Anupam Gupta: You said it is coking coal to be specific.

Jami Satish: Coking coal, yes,

Anupam Gupta: Thank you that's all from my side.

Jami Satish: Thank you.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors Pvt. Ltd. Please go ahead.

- Dixit Doshi:** Thanks for the opportunity. Couple of questions from my side. Firstly, in this JV you mentioned 280 Crores capex to be done over a couple of years whatever the revenue booking will come only from the third year, right?
- Jami Satish:** Yes, right sir.
- Dixit Doshi:** You earlier also mentioned even in the last call that we are targeting around Rs. 4000, Rs. 4500 Crores of fresh orders in FY2022, so I suppose this is excluding this Coal India project.
- Jami Satish:** Yes, it is not part of that as you said it is rightly correct. So Q1 we had a target of Rs. 550 Crores, we could able to book till 300 Cr plus though we have sourced few more orders but still in L1 stage, which Mr. Ramaiah was mentioning so probably first week of next month we may add few more orders so the target is excluding the MDO is around Rs 4000 Cr to 4500 Crores.
- Dixit Doshi:** That's it from my side. Thanks.
- Moderator:** Thank you. The next question is from the line of Faisal Hawa from H.G Hawa & Co. Please go ahead.
- Faisal Hawa:** Rs. 10800 Crores kind of an order book and another Rs. 5000 Crores coming then can you not do a much better revenue in 2021-2022 rather than the target which you just mentioned in the opening remark and second is that do you feel that more orders could come in from Coal India for different geographies now that they are moving on to privatization of operations?
- Kodanda Ramaiah:** The order book is going to flow also this year, it would take couple of months to start we are already in the second quarter end and in the third quarter effectively some of these major orders are now there and in the fourth quarter we have to do lot of engineering work, usually prepared to mobilization work, if it starts it will add on to that, the 100 to 200 Crores maximum but we are not taking that in to account whatever our present plans what we have made, around plus 2500-2600 Crores of the current year's turnover is based on the backlog what we have built up after the last year order booking.
- Faisal Hawa:** So, we could be in line for more such orders from different others?
- Kodanda Ramaiah:** Regarding Coal India jobs that will happen only from the third year onwards, maybe 2024 end or 2025

- Faisal Hawa:** We can get more such orders from different other groups of Coal India?
- Kodanda Ramaiah:** That is a matter of taking the call in the investment then the type of opportunity available and then the project feasibility and then how much we would like to take it also and then here it was specific coking coal related and there is lot of demand in that and there is assured commitment for offtake for the entire period of the operation, those things we have to see. Conventional coal and all that is a different aspect of it, we have to take a call on that.
- Jami Satish:** So, to start with we have to first develop this project, we will see how things will move going forward but now to start with we will focus on this project.
- Faisal Hawa:** We are also doing a very big project in the next two to three years and if the railway is now moving like how the road ministry has moved with bigger orders and faster movement on tendering, etc.,
- Kodanda Ramaiah:** Road sector?
- Jami Satish:** Railways sir.
- Faisal Hawa:** Are we working now as swift as the road sector?
- Kodanda Ramaiah:** Road sector we are participating, we are already executing two jobs, one is in northeast and another is in Karnataka nearly around 1000 Crores and already about 7% to 8% of the work has been completed in either of the projects, therefore we established there, now we would like to look at some opportunities, then NHAI, offers lot of opportunities, we have to select few projects and take a call on that.
- Moderator:** Thank you. The next question is from the line of Abhishek Podar from HDFC Mutual Fund. Please go ahead.
- Abhishek Podar:** Thanks for taking my question. Sir congratulations on good quarter. Regarding this NMDC opportunity what could be the size of these two opportunities sir?
- Kodanda Ramaiah:** It can be Rs. 500 to 1000 Crores.
- Abhishek Podar:** Per opportunity?
- Kodanda Ramaiah:** Yes.
- Abhishek Podar:** Okay and this would be again like an MDO where it will run for a longer period or?

- Kodanda Ramaiah:** No, they are all EPC contracts not BOOT or BOT.
- Abhishek Podar:** Okay understood sir. Sir what is the operating cash flow for this quarter and what was the movement in working capital?
- Jami Satish:** Operating cash flow is positive it is around 28 Crores positive first quarter.
- Abhishek Podar:** Could you also give movement in working capital?
- Jami Satish:** The receivable cycle was still there 535 to 540 Crores last quarter and now that has come down to close to 500 Crores and inventory level it was there close to 120 Crores now it is coming around 105 to 110 Crores and retention money in spite of the growth in the business still continued to be around 280 to 285 Crores, the reason being there is some good amount of collection from the final bill, so that is helping us to support the new projects execution.
- Abhishek Podar:** Sir in terms of BHEL outstanding in terms of retention money could you give that number also how the movement is there?
- Jami Satish:** BHEL is now on average 7 to 8 Crores we are collecting towards the final bill, now the Unchahar project BHEL and NTPC JV, in last 40 days we collected close to 20 Crores that is a good amount of realization and Maitree and the regular project in terms of collection now it is very good, BHEL Maitree is around 60 to 65 days and in India it is coming to 75 80 days but in terms of final bills 7 to 8 Crores collections every month that is a very good momentum, that is helping lot in terms of operating cash flow. So, we are expecting this 25 to 30 Crores of operating cash flow should continue and help us in our operation.
- Abhishek Podar:** Last bit on the retention money how should we see the moment here?
- Jami Satish:** The retention money see it was 320 to 340 Crores, now every month the trend is coming down, now 280 to 285 Crores in spite we executing 750 Crores last quarter and this quarter 600 plus but still it is coming down, that is the indication of the retention money is coming down. You see that this number towards the end of this year may be close to 270 or 265 Cr. The reduction happening and with the new addition, at the end, the net cash inflow is more to the system so that will help to mobilize new projects.
- Abhishek Podar:** Right understood and given the execution will be stronger this year compared to last year's top line of 1900 Crores you are talking about 2800 Crores, 3000 Crores this year, still the operating cash flow will be 28 Crores positive per quarter so that number?

- Jami Satish:** Maybe Q2 slightly lesser than that because Q1, Q2, Q3, Q4 the movement if you see Q1, Q2 will be less, overall in that trend we will be able to execute Q3, Q4 maybe slightly more, the idea is to focus on the final bills so I think we should be able to do that.
- Abhishek Podar:** Okay, thanks a lot sir. All the best.
- Moderator:** Thank you. The next question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.
- Abhishek Maheshwari:** Thank you for the opportunity. Sir I have only one question regarding the PAT margin, so considering that we are almost back to normal and we may be operating at full potential, so do you think maybe 5.5 to 6% is total for the entire year?
- Jami Satish:** There is lot of potentials to go towards that numbers, now things are improving so if it be Q4 of last year and Q1 of this year lot of improvement in terms of execution cycle and all, now we are hopeful that the EBITDA margins should gradually go up towards normal margins, with that the finance cost we are trying to bring it down every quarter to some extent so that comes to very respectable level. With that the PAT should definitely go up and the depreciation also if we see not much additions are happening, it used to be 11 to 11.5 Crores per quarter now that has come down to 9 Crores, which itself an indication of capex not much happening. There is possibility that gradually it should improve sir in a period of time.
- Abhishek Maheshwari:** Okay sir. Thank you sir. That's it from my end, all the best.
- Moderator:** Thank you. The next question is from the line of Rishikesh Oja from Robo Capital. Please go ahead.
- Rishikesh Oja:** Sir my question is what EBITDA margins can we expect ahead and also if you could guide on order inflow for this year?
- Jami Satish:** In terms of margins there is a potential to improve gradually because we are working with very challenging environment, things have not completely settled down because COVID what we thought, now COVID two has come down but difference is working with COVID now we are used to, fortunately sites not under lockdown and all the sites are working so at least we should come back to our normal margins gradually and in terms of order target as we were mentioning, we are confident that 4000 to 4500 Crores of order we will add this year.
- Rishikesh Oja:** 4500 is the order inflow for this year correct?

- Jami Satish:** Yes.
- Rishikesh Oja:** Okay sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Mayank Bhandari from Nirmal Bang Equities. Please go ahead.
- Mayank Bhandari:** Sir I wanted to know how is the unbilled revenue portion in our balance sheet moving, I think that is about 400 or some 450 Crores?
- Jami Satish:** Yeah, now it is coming down because the BHEL final bills and all, especially the revenue mix is changing so in terms of mechanic and O&M the certification happening quickly but whereas in terms of civil and all wherever the material component is involved that certification slightly takes longer time as compared to the erection works. So, apart from that the BHEL pie of the final bills are involved the certification takes slightly longer time now that pie is coming down so gradually you will see that the amount will come down.
- Mayank Bhandari:** So, sir like how much it can come down in the next two years?
- Jami Satish:** Now it is around 385 to 395 Crores, so this should come down to 350 to 360 Crores that is the target now that should come down slowly, no change in volume because as a percentage if you see because it depends how much of execution we are doing in a quarter and especially in the last month that depends for that quarter, so once the final bills and all get cleared so probably what will happen is you will see that one month or one-and-a-half month bills where we will see the pending certification so as a percentage it will come down now.
- Mayank Bhandari:** Okay and sir when you say normalized margin how much exactly like is it 12 to 13% something?
- Jami Satish:** That's what we are working towards because now there is a change in the revenue mix. There is supply component also involved so with change of business mix and the addition of some of the long recurring expenses, we have to see that both are balanced. So the idea is first to get into the normal margins and then probably to take it up gradually to a higher margin of 14% to 14.5%.
- Mayank Bhandari:** Sorry sir, to 13%
- Jami Satish:** The normal is around 12.5 to 13.5% and you will see that in medium term it may also go up to 14 to 14.5%.

- Mayank Bhandari:** Sir sequentially this quarter staff cost has increased to 95 Crores whereas revenue was dipping, so this staff cost is going to be constant going forward?
- Jami Satish:** Yes, because two reasons, one is like we added the Singareni Collieries, so there we have taken some increase of staff because of the increase of the O&M order book, number one. Number two is there has been change between off roll to on roll, we have taken some of the employees who were there in subcontractors' payroll. So, this number may not be proportionate to our revenue growth because being a fixed nature but there will be a slight increase because the business itself is increasing.
- Mayank Bhandari:** Lastly when I look at your gross margin, this quarter gross margin has been pretty much at 27% and this is probably at a level of what it was in FY2020 so what has changed for the last one year, gross margin has improved this particular quarter why is it improved in this particular quarter?
- Jami Satish:** Two reasons. One is the execution movement was improving, number one, so our fixed cost is not proportionate to our execution because to some extent it is constant. Number two is the business mix like the contribution of the vertical, it keeps changing, so with that the change in gross margin will continue to be there.
- Mayank Bhandari:** Okay sir. Thank you. That's it from my side.
- Moderator:** Thank you. The next question is from the line of Satyan Wadhwa from Profusion Capital. Please go ahead.
- Satyan Wadhwa:** Just wanted to check once the MDO revenue starts what sort of margin are you expecting from that?
- Jami Satish:** This MDO because it also needs some developmental cost and all, it is too early to comment but our internal estimate it is going to be in the range of 18 to 21% at EBITDA level that is what we have set out the target for it, probably how to improve and all we have to see once the ground activity starts and we start to operationalize at this rate. That is what the target 18% to 21% we have kept.
- Satyan Wadhwa:** This revenue will likely start in financial year 2025?
- Jami Satish:** Yes, sir it will start, 2.5 years ramping up period in terms of development, it will start from that time.
- Satyan Wadhwa:** Okay. Thank you.

- Moderator:** Thank you. The next question is from the line of Nimesh Rathod from SSR Charitable Foundation. Please go ahead.
- Nimesh Rathod:** Just a simple question on what was mentioned in the last call, there was an opportunity of getting a project on the Jal Jeevan Mission, could you give us a little bit more color in terms of what kind of margins does one compete for in the Jal Jeevan Mission project and where are we standing on that particular project, I believe it was about 450 Crores worth of project?
- Kodanda Ramaiah:** We have started that work already, revenues will start flowing from the second quarter itself and then both the projects are about two years duration and yes the margin is about 12% there, EBITDA margin.
- Nimesh Rathod:** What kind of competitive scenario are we experiencing there because I believe the opportunity would be a very large one going forward?
- Kodanda Ramaiah:** In the drinking water scheme and infrastructure, there is an amount of competition, there is an opportunity also competition. And there are many players in all these tenders, therefore at least 10 to 12 players are there, all the infrastructure players will have a role there and it is a normal job to be done to provide drinking water to household, newer areas. There is a question of structure in the contract and then finding a partner taking into account the local conditions managing it, therefore yes many, many players will be there in the infrastructure who are all there they are there in that.
- Nimesh Rathod:** Are we still comfortable with our scheme of things in terms of the margins?
- Kodanda Ramaiah:** It depends on the circles and areas and which are the parts of the states and the districts where these projects will come up and what is the feasibility of doing it and accordingly people will select it based on the comfort level of doing this projects that is how we had an opportunity in the UP that is how these two projects we accomplished, totaling 982 Crores.
- Nimesh Rathod:** Great, thank you. One more question will you be able to tell us what kind of projects you end up rejecting just to understand the line of thinking in terms of how are we allocating our resources first?
- Kodanda Ramaiah:** Resources basically one is the material resource if it is EPC or material-based contract or if it is service contract it is mostly HR, in O&M it is mostly engineering expertise, engineers and operational experiences. In the case of installation jobs, the resources are mainly in the PRWs, workers, the contractors we engage based on the project size and requirement and of course all these works will be supervised and overseen by the Power Mech staff that is the

basic strength we have built up, in fact today direct head count is around 15000, indirect head count is around 15000, totally 30000, therefore this 15000 of our direct staff takes care of the operation maintenance that is the substantial portion of the manpower related jobs where we are operating about 40 power plants, balance 5000 engineer, staffs, and supervisors and experts and other staff will be mainly for taking care of the execution of any of the projects both in the mechanical side, civil side, and electrical side.

Nimesh Rathod: Alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Rajnish Mahan from Master Capital. Please go ahead.

Rajnish Mahan: Thank you for the opportunity. Two questions sir, one is regarding what is the net debt level that your looking by the end of the year?

Jami Satish: See this year 330 Crores is the net debt now, maybe another 30 Crores it should come down that is what we are planning, 35 or 40 that is the range.

Rajnish Mahan: And how much sir this 280 Crores that you said you would be spending for this MDO project, how much will be this year?

Jami Satish: Sir this year the idea is to keep the approach just because the biggest milestone is the land acquisition that is in place, out of 1100 hectares it is almost 840. Now the next milestone is the approval in 6 to 8 months. So till that time we will be spending more towards facilitating all these works and ground clearance and all. So, at a higher level may not be more than 5 to 6 Crores during this year.

Rajnish Mahan: Second question is regarding you already have 7000 Crores of order and you are expecting around 4500 orders, so next year can you give some type of guidance let say this year you are saying around 2800 to 3000 Crores, so what is the next year target that you have set revenue wise?

Jami Satish: See to have a conversion of minimum 37% to 38% plus to our backlog that is the plan what we have kept, so if you see the trend past few years, the execution to the backlog is almost like 40% to 42%, so 37% to 38% conversion is quite comfortable.

Kodanda Ramaiah: I think we had estimated 3000 Crores FY2022-23.

Rajnish Mahan: Okay. Thank you, sir.

- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much sir for the opportunity. Sir you just mentioned about 37% to 38% conversion of order backlog, so I presume with 4000 to 4500 Crores of order inflow and maybe 2800 Crores kind of execution we will end the year with 9200 kind of maybe order backlog. So, 3500 Crores to 3600 Crores is what would be a fair level of execution level that you might target next year?
- Jami Satish:** See the idea is 37% plus, see normally what happens is by the time we get an order and it gets fully operationalized at the ground level it takes 2 to 2.5 months. With the order book what target we have kept so definitely it should be 3000 plus what Mr. Ramaiah was trying to say. So, the inflow to the execution maybe depends Q3, Q3 how much we are adding and Q4 how much we are adding. So, the lag of 2 or 2.5 months considering that comfortably we should be able to target that percentage.
- Deepak Poddar:** So, 3000 Crores seems to be a conservative number of FY2023 right?
- Jami Satish:** In terms of Power Mech any order we take in terms of execution as per the contractual target we are on, so execution I think should not be a problem now, quality orders and all we are adding, it is very difficult to specify any number but the percentage yes we will try to work on that.
- Deepak Poddar:** When you mention we will target 14% to 14.5% medium term so we are talking about two to three years or shorter period?
- Jami Satish:** Yes you are right.
- Deepak Poddar:** 12% to 13% maybe in one to two years back to normal margins that you mentioned about.
- Jami Satish:** That's true.
- Deepak Poddar:** Okay fair enough. That's it from my side. Thank you very much and all the very best.
- Moderator:** Thank you. Ladies and gentleman this will be last question for the day. This is from the line of Faisal Hawa from H.G Hawa & Co. Please go ahead.
- Faisal Hawa:** Sir lot of these thermal plant may not be operational in years to come. There may not be even more opportunity in setting up more thermal plants, so are we moving into any kind of EPC for solar and all, any kind of operational maintenance for solar also? Wind power for that matter?

- Kodanda Ramaiah:** What we are trying to do is that the focus has shifted to non-power, of course power is where O&M we are doing it and residual works what is there from installation business, domestic and International market and then the electrical side whatever is the opportunity comes, related to transmission distribution but on the non-power side we are focusing more. I think solar and wind power we are not targeting, what we are targeting is some of the metal and material processing plants, I think there is lot of investments coming up with the business opening up in the coal sector and then iron ore business and then coal business, here you know the investment is anywhere between 25,000 to 40,000 Crores in the next couple of years and that is where I explained about the partnership we are planning with two leading players, MNCs, one is Thyssenkrupp, another is FLSmidth that is where you know we would like to take up EPC jobs. The first EPC job what we have taken is at Kurmitar along with Thyssenkrupp, which we have started the work. That experiment and that decision we would like to repeat it in the future also for similar type of jobs and there are lot of opportunities coming.
- Faisal Hawa:** Are we also trying to build up our own capability in planning and trying to take up best expertise from Thyssenkrupp, etc., so that our margins may expand and we may be able to do the entire job ourselves rather than going for a joint venture.
- Kodanda Ramaiah:** That is a very good question what you asked, in fact what we look at it is that the partnership with both the companies can improve our working also because they are professionally managed multinational companies, they are doing lot of best practices, therefore in a way it is a good learning and good understanding of pushing the project and they are very focused in project management and delivery system and their control system, project control systems are far superior to many of the players in the field. Therefore, there is a definite amount of benefit and it is not only that we are responsible to each other, that means if they are responsible for the delay from their side then they have to take hit and if we are responsible for the delay we have to take the hit that is why there is lot of responsibilities entrusted in this contracts when there are cooperation agreements are signed and we cannot afford any lacunas there.
- Faisal Hawa:** Thank you very much sir.
- Moderator:** Thank you. Ladies and gentlemen as this was the last question for today, I would now like to hand the conference over to Mr. Mayank Bhandari for closing comments.
- Mayank Bhandari:** We thank the management for taking time out and sharing their valuable insights on this call and we also thank all the participants for their presence. Sir do you have any closing remarks?

Kodanda Ramaiah: Yes I think what we should do is sustain the momentum and focus should shift to better conversion, improve the margins to the extent possible barring the COVID issues and then keep focus on our customer relationship and new relations what we have established with our partners that we have to sustain it in many cases, it is going to be new business model which we have to take it forward for better growth and all, I think that is what it is. We would like to have continuous growth in the next couple of years.

Moderator: Thank you. On behalf of Nirmal Bang Equities that concludes this conference. Thank you all for joining us and you may now disconnect your lines.