



“Power Mech Projects Ltd. Q2 FY17 Earnings Conference Call”

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MODERATOR: **MR. SAGAR KARKHANIS – NIRMAL BANG EQUITIES PVT. LTD.**

Moderator: Ladies and gentlemen good day and welcome to the Power Mech Projects Ltd. Q2 FY17 Earnings Conference Call hosted by Nirmal Bang Equities Pvt. Ltd. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Sagar Karkhanis from Nirmal Bang Equities. Thank you and over to you Sir.

Sagar Karkhanis: Good afternoon everybody, welcome to this call organized by Nirmal Bang Institutional Equities. We have from Power Mech management side with us Mr. J Satish - the CFO and Mr. S. K. Ramaiah –Director, Business Development. Without any further delay, I handover the call to Mr. J Satish – the CFO to give his opening remarks and after that we can take the Q&A. Over to you Sir.

J Satish: Thank you. Hi, this is Satish – CFO, Power Mech Projects Ltd. Good afternoon and thank you all for participating in the call. We are happy to share Q2 results of FY17. PMPL achieved total revenue of Rs. 322 crores during Q2 FY16-17 as against Rs. 319 crores during Q2 of last year. The mix is; Mechanical Rs. 169 crores, Civil Rs. 41 crores and O&M Rs. 109 crores whereas last year Mechanical we did around Rs. 173 crores, Civil Rs. 42 crores and O&M Rs. 103 crores. The EBITDA is Rs. 42.8 crores during Q2 FY16-17 as against Rs. 44.2 crores during Q2 of last year and PAT is Rs. 16.2 crores as against Rs. 18.1 crores during Q2 of last year., PMPL achieved total revenue of Rs. 645 crores during first half of FY16 -17 as against Rs. 622 crores during H1 of last year. And the mix is; Mechanical around Rs. 343 crores Civil Rs. 76 crores and the revenue from O&M is Rs. 220 crores whereas last year first half of FY15-16, Mechanical was around Rs. 373 crores, civil was Rs. 82 crores and O&M was Rs. 164 crores. Similarly, the EBITDA for first half is Rs. 87.1 crores as against Rs. 85.6 crores during the last year and PAT is Rs. 32.9 crores during first half of FY16-17 as against Rs. 34.1 crores during first half of last year. Therefore, the revenue growth for first half is close to 4% as compared to last year. EBITDA it has gone up to 1.74% however; there is a small dip in PAT due to the increase in depreciation cost of around Rs.2.52 crores during the first half of FY16-17.

As explained during last Q1 call, margin increase is not proportionate to revenue increase as compared to last year due to certain additional cost of around Rs. 2 crores for Mechanical Projects which are about to close. However; there is a reduction in overall finance cost by around Rs. 40 lakhs as compared to last year. The positive side is, the cash flow during first half is around Rs. 32 crores surplus from the operations whereas it was negative during the last quarter of FY15-16. Projects like Barh and Harduaganj, the mobilization got delayed by around 3 to 4 months due to various external factors effecting revenue. Similarly, our International projects like Ibri at Oman and Wadalshama at Saudi, also got delayed than what we anticipated in awarding the contract. In addition to that, the demonetization though there is no direct impact on Power Mech directly but we are mostly people intensive, so most of our staff have been travelling to their native place since one month. We anticipate, by year end we will be able to maintain 4-5% growth as compared to last year and the operating cash flow as

we discussed last time would be positive of around Rs. 85 crores to Rs. 90 crores this will help us for reduction of the existing loan. Moreover, the average borrowing cost for the company has come down from 10.46% to 10.25% during the year and we are expecting probably there may be small reduction further post budget session. This year we had very good order book close to Rs. 1300 crores, added up-to-date. In addition to that, we are expecting close to Rs. 900 crores of order to get added in our books by next 30 to 40 days, out of that close to Rs. 750 crores is in L1 stage and another Rs. 150 crores in a very advanced stage which we are expecting to be added next 30 to 40 days. So this gives very strong visibility for next couple of months. The order book addition for this year likely to be close to Rs. 2600 crores by FY17. We are confident of achieving at least 20% growth for FY17-18 taking the order book what we have in hand. Now I request all of you to take forward for any questions and answers, thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Vishal Jajoo from Tata Investment Corporation. Please go ahead.

Vishal Jajoo: My first question was with regard to the employee cost. This figure is around Rs. 55 crores per quarter and if you are looking at around 20% top line growth and this as a percentage of our quarterly sales figure or revenue figure of around Rs. 320 crores is a substantial portion. So how this will pan out going forward?

J Satish: See if you take the manpower cost and the subcontracting cost, there also a substantial element is manpower cost, this normally is in the range of 66% to 67% of the total revenue. What I am trying to say is the combination of direct and indirect, the manpower cost would be in the range of 66% to 67%. So Rs. 55 crores, which may go up to Rs. 60 crores or Rs. 65 crores, beyond that we do not want to add additional manpower. If at all there is a need, we will go through the subcontractor model, but we will not add additional manpower, because what we do is take only the top engineers and the technicians in our roll & the rest we go through the outsourcing model.

Vishal Jajoo: So in order to assess the thing, if we were to break your employee head count, so the top head count would more or less or the cream would more or less remain the same because you would be needing more people to execute these projects if you want to achieve a 20% higher top line for this year. So maybe as a percentage of sales, this figure is expected to come down?

J Satish: As a percentage, yes you are right. It should come down but having said that the subcontracting cost will go up because we may need to hire some more engineers and workers. Staff cost which is in house payroll as a percentage to the turnover it should come down.

Moderator: Thank you. We have the next question from the line of Manish Goel from Enam Holdings, Please go ahead.

- Manish Goel:** Just wanted to clarify you mentioned that cash flow is positive of Rs. 32 crores in first half and you expect cash flow positive of Rs. 85 crores in FY17, so can you clarify this is before working capital and CAPEX or how is it?
- J Satish:** The cash flow from the Operations will be positive around Rs. 85 crores that is what we are expecting, probably the CAPEX what we are planning for this year is in the range of Rs. 10-15 crores and part will go towards servicing of installments & interest ,the net after servicing CAPEX and interest and installment would be close to Rs. 30-40 crores.
- Manish Goel:** Sorry, servicing installment towards what?
- J Satish:** No, what I am trying to say that cash flow from operations is expected to be positive by Rs. 85 crores. Now this Rs. 85 crores the utilization would be one is towards my CAPEX which we are expecting around Rs. 10-15 crores and then my interest and our existing installment payments that may go around Rs. 40 crores. The net we wanted to utilize for the reduction of loans.
- Manish Goel:** And on the order inflow you mentioned Rs. 900 crores, so Rs. 750 crores we are L1, so how many orders are these and these are from domestic and international, can you please give some flavor on it?
- J Satish:** Yes, probably next 30 days I will be able to give you more detail but Rs. 750 crores what we are expecting is more on domestic and another Rs. 150 crores that will be international.
- Manish Goel:** And this domestic will be ETC and O&M?
- J Satish:** It is a mix of erection and civil.
- Manish Goel:** And this Rs. 2600 crores order inflow guidance what you have given for current year, can you give a breakup between domestic and international?
- J Satish:** Of the total Rs. 2600 crores, International could be in the range of around Rs. 400 crores, on top of that another Rs. 50 crores of O&M, so total international is Rs. 450 crores including O&M business, rest will be domestic. Out of Rs. 450 crores, we have already achieved Rs. 270 crores, the rest is expected by January or February.
- Manish Goel:** Can you please give us a sense on the pipeline, see this are the orders you have already received but how is the further pipeline going forward?
- S K Ramaiah:** There is some sort of an upward lookup on some of the projects coming up that is one of the positive things, which Satish has given in the initial remarks. New projects are coming up in Tamil Nadu, Andhra Pradesh and in UP. And also these things are coming for bidding and that is where the opportunities will come up. What Satish was trying to say is that one particular job of Civil and Mechanical together of Rs. 248 crores we are the lowest for a tender in North

Chennai. And another tender also we are in the final stages of negotiation and we are waiting for a final clearance from L&T for Ghatampur and if these two things can mature enough first part of the Rs. 750 crores to Rs. 150 crores that will take it forward better for order book position, but the general nature of the projects is that there are major orders recently placed by the developers for example, Neyveli Lignite Corporation has placed around Rs. 3000 crores orders on Reliance Infra for two projects of 250 MW ETC jobs in Barsingsar and Basit in Rajasthan and we have already started initial dialogue with the R-Infra for association in several packages. Two tenders have almost been finalized in the sense they are the lowest, for Doosan for the two ETC jobs worth of more than Rs. 10,000 crores in Jawaharpur and Obra in UP, 4 units of the 660 megawatts units these are expected to be ready for subcontract tendering in the last quarter for Civil and Structural works and there is a major mechanical package which is expected in Ghatampur for the boiler, erection testing worth of Rs. (+200) crores for the boiler package in Ghatampur by L&T in the last quarter, coming in January 17. Therefore, and then in the same Ghatampur Alstom is the lowest for the TG Mechanical package and there also we are bidding along with the civil and structural work, civil and portion of the mechanical work. Therefore, these are the opportunities which are in the pipeline and perhaps that figure of Rs. 2600 crores is achievable taking all these factors into consideration, plus the diversification what we have done. .

- Manish Goel:** Can you tell us what the current gross debt and how much you expect by March to decline?
- J Satish:** The working capital loan is Rs. 185 crores and our Cash, Bank Balance & FDs are close to Rs. 75 crores, so around Rs. 110 crores is our net debt and this we wanted to bring down by at least Rs. 30 crores by end of this year.
- Manish Goel:** There should be some long-term debt as well, right?
- J Satish:** Close to Rs. 25–28 crores and that should come down by Rs. 15 crores any way every month we pay Rs. 2 crores of installments, so gradually it will come down.
- Manish Goel:** Next year you mentioned FY18 the growth of 20%, so this will be largely driven by the mechanical portion, mechanical & civil right.
- S K Ramaiah:** No main drivers will be O&M, Exports, Civil and to some extent Mechanical..
- Manish Goel:** How are we looking at the margins for FY18?
- J Satish:** FY18 the mix is going to change, off course O&M we are expecting around Rs. 550 crores and civil portion will slightly go up because of some of our new initiatives, probably the blended margins could be in the range of 13%+ because erection will continue to be at 10.5-11%, Civil it will be in the range of 8-9% whereas O&M will be 17-18%.
- Manish Goel:** Next year would there not be any major CAPEX plan, FY18?

- J Satish:** It's all purely working capital intensive and as I told you substantial numbers of domestic projects are closing, so we are planning to move the existing equipment's. If at all there is client pressure we may add Rs. 10-15 crores, not beyond that.
- Moderator:** Thank you. We have the next question from the line of Pratik Singh of Nirmal Bang. Please go ahead.
- Pratik Singh:** Sir in the last quarter we had bid for some six tender in Saudi Arabia, Oman and Dubai, so could you just give us an update on those, we were confident of receiving 3 projects. So, just an update on that?
- J Satish:** See, out of three, we have already got two projects, one is around 155 crores in Oman the principal client is Aqua power and for us the contractor is M/s TIEJUN IBRI POWER CONSTRUCTION L.L.C, Oman, (SEPCO III) and the second one is in Saudi at Waad Al-Shamal, Saudi Arabia, that is around 110 crores, both put together is close to 270 crores, which we have already got the projects and the execution also is in full swing and one more project is expected as CMD was in Saudi last week to discuss about the project, that is expected to be at any time, may be max by January, we should expect one more project from Saudi, the same may be in the range of 150 to 200 crores.
- Pratik Singh:** Okay and sir, just a follow-up question. Sir, which geographies or countries are we seeing a good potential with terms to international orders coming in.
- J Satish:** As of now Saudi, we have demonstrated quite well and Hyundai project is almost getting over by March, so there are couple of more projects we are anticipating from Saudi Electricity Company and apart from that there are some projects in Oman and we are also in advanced stage of discussion in Bahrain. As you know we are also working in Bangladesh for L&T, there are some discussions also in Bangladesh, these are the key locations where we are focusing as of now.
- Pratik Singh:** Okay, so sir also from Capex point of view, last time you had said that if any more international projects come in, so our Capex requirement would go up, so any comment on that sir.
- J Satish:** The idea is like we are closing almost more than 20 domestic projects, so presently for new projects wherever we have got assets we are mobilizing from the existing sites. So the Capex will not be in the range of 30 or 40 crores what used to be two years back, it will be max of 10 to 15 crores.
- Pratik Singh:** And sir this six erection projects which you were expecting to be closed by December, sir any update on that sir.
- S K Ramaiah:** Yeah, the new projects we are expecting you know, that is what we may start the work in North Chennai one project and then perhaps one project in UP, these are the two new projects

which are expected and there is an opportunity to take up the work of a major dismantling work of an existing power plant for a relocation to Iran and Bangladesh that is in Samalkot that is around 60 crores, these are the three major jobs we are anticipating and the resource management for this is not a problem as Satish has rightly told you know we are having lot of closing projects. We will be able to relocate both the manpower and the capital equipment for the new projects adequately.

- Moderator:** We have the next question from the line of Amber Singhania from Asian market securities. Please go ahead.
- Amber Singhania:** Hi sir, thank you for taking my question. Just a couple of things I wanted to understand, I missed your opening remark, what is the total order book you have mentioned as of now.
- J Satish:** As of now, as of September it is close to 3500 crores and subsequently post September another 300 crores was added, so with that it is 3800 crores. Total additions will be close to 1200 crores plus as on date and we are expecting to add this by 1400 crores by this year. By year end, the total additions for this year will be close to 2600 crores.
- Amber Singhania:** And out of which how much sir, we have already done in the first half, is 1200 crores.
- J Satish:** Yes, you are right. We have done 1200 crores, up to date..
- Amber Singhania:** Okay, secondly sir, out of this 3800 crores, how much is your erection work and how much is civil and how much is O&M.
- J Satish:** As of September, erection is close to 1650 crores, Civil is 700 crores and the balance is O&M.
- Amber Singhania:** Sir, the O&M part which you have mentioned this is annual O&M order book or how is it, it is a 5-year contract or what is that.
- J Satish:** Yeah, it is typically like contract basis, 3 to 5 years contracts.
- Amber Singhania:** Sir this 1150 crores of order book in O&M for 5 years.
- J Satish:** You can take it close to 3 years on an average.
- Amber Singhania:** 3 year execution.
- J Satish:** Yeah.
- Amber Singhania:** And for the erection work it is.
- J Satish:** Erection will be like the existing projects on an average it is 24 months.
- Amber Singhania:** Similar for Civil also.

- J Satish:** Civil is also for 20 to 24 months.
- Amber Singhania:** Secondly, sir I just wanted to understand your outlook on the all the three segments separately; how do we see O&M part moving as a country as a whole because in our last introduction, we mentioned a lot of NTPC plants are also coming up for O&M as well as most of the Chinese company's equipment are also up for O&M in a major way, so what are the kind of scale opportunity for us and how fast it is converting this landscape is converting into the overall scene of things.
- J Satish:** Yeah, if you split the total opportunities into public and private, so far more than 40 to 50% market shares in the private sector we have taken, so as of now what we are anticipating is like the opportunities in public sector may take some time, so 2017 and 2018 under guidance what we have given is assuming that the present figures will continue. So from the existing and projects which are in pipeline from the private sector, that would be probably in the range of 500 crores that is what we are expecting. On top of that may be around 60 to 70 crores may come from the international sites. We are working in a big way in the international opportunities but yet to get converted. Hence, as of now we are anticipating close to 40 to 50 crores of revenue from international orders and if conversion happens, probably the opportunity in international site also may go up in the range of 100 to 150 crores.
- Amber Singhania:** Sir if I understand correctly, we have an opportunity for next two year for example, roughly 500 crores from private space and 60 to 70 crores from public space right.
- J Satish:** No, see the conversion from the order book to execution that means the turnover that is what we are expecting 500 crores from the domestic site from existing order book. We had one breakthrough in the public sector for Singareni and few are in discussion stage but we have not considered any order book or any conversion for 2017 or 2018 from the public sector.
- Amber Singhania:** So basically roughly 500 to 550 crores of revenue we expect on O&M in FY18.
- J Satish:** Yes, comfortable, we will be able to do from the existing order book and few projects which are in anticipation.
- Amber Singhania:** And in FY17 sir.
- J Satish:** FY17 it will be close to 460 crores we will do.
- Amber Singhania:** 460 crores, and similar thing if you can share some light on the your erection part BTG site because what I understand is overall the new power plant commissioning or projects have slowed down considerably in the last couple of years, how do we see that scenario and what is the future outlook for this entire BTG business for us.
- J Satish:** Yeah, , from the erection side we are not assuming much of growth, , the scenario is like as you know , though there are lot of opportunities but yet to get converted, so we have taken

from the domestic side from our existing order book 460 to 470 crores, it means there will be de-growth during FY17 as well as FY18 also. However mechanical turnover is getting supplemented from international side. During last month, we could able to source around 270 crores of orders, few more orders are also in pipeline, so we have taken a very conservative view assuming that this scenario of domestic market probably will continue for another two to three years and there will be a slight degrowth in erection business in the domestic side in next two years .

Amber Singhania:

But in terms of international orders what I understand from various other companies whoever has entered into Middle-Eastern geographies on the entire this landscape, they have faced a problem in terms of margins, in terms of execution, in terms of the terms and conditions as the contract was completely in the favor of the client, be it, Voltas, L&T and all, we have seen faced problems in the past in both geographies. How do we see our experience there and what makes us confident that we will be able to make up for the loss of revenue from the domestic in terms of geography along with the profitability.

J Satish:

The big difference is as you mentioned the names, it has been raised by all our investors, So the difference is the EPC and ETC, erection, testing and commissioning, and if we see where the supply part is involved, so the difference between L&T or other players is we have positioned ourselves as a service provider and we will continue to be as a service provider, we are not exposed to any material supply, so if at all there is a threat or any risk it is only one month bill that is towards my manpower, that is how we have differentiated.

SK Ramaiah:

Yeah Satish, what I would like to add on this is that, our particular experience in Saudi Arabia and presently Oman mobilization has been pretty good, in fact, Saudi Arabia, the job at Shuqaiq you know we are getting some additional payment for faster project implementation of the work also and we are completing the project on time. What has happened is that the major issues in mobilization is a visa problem and mobilization of the manpower because everybody movement and manning the projects , from passport stage to visa stage to work permit stage, things have to be streamlined, that has been streamlined now. Therefore, we establish a template and the procedure and the proper documentation to mobilize for the new projects also, therefore, that as Satish has rightly said, being a service provider, concentration as mobilization of manpower and equipment and as no material and engineering is involved we will not be subject to that type of risks here.

J Satish:

And if you see last three years, in terms of collections and in terms of margins, erection is quite comfortable at international projects as compared to domestic projects due to the nature of owners & contractors.

Moderator:

We have the next question from the line of Pranav Gokhale from Invesco Mutual Funds. Please go ahead.

Pranav Gokhale:

The question is when it comes to the Saudi Arabia business or the Middle-East business versus in the Indian business on the O&M side, how is the mobilization advance or advances to

receive different and how is the working capital cycle there and do we have to keep any money as retention and how long will it be for.

J Satish: For O&M opportunities, typically the client won't give more or less advance and in terms of working capital, it is one month to two months' maximum. The billing cycle is monthly and the retention money typically 50% of our O&M contract will not carry the retention money clause & in few cases what they do is they return 5% of our bill and release the same post completion of 1 year, not like in case of erection of Civil business, the release is post completion of the project normally it takes 3 years & thereafter 1 year as a warranty period. But in case of O&M 50% of our contract does not carry the clause of retention money and wherever there is a clause they release post 1 year, it means post 12 months of bill submission.

Pranav Gokhale: So, this is what you are talking about is the Saudi Arabia and Middle-East region.

J Satish: Typically both the Indian or like Saudi projects more or less the same.

Pranav Gokhale: Okay, so first time as you are working in the geography you will not have to incur any retention money or I understand it is an O&M business but still considering you will be working you know first time on a big scale I am asking you this question.

J Satish: As of now for O&M we have close to 30 to 40 crores and we wanted to expand up to 100 to 150 crores. We are trying to work out a model where there will not be any retention money. If at all they deduct, we will ensure that maximum 6 months or 1 year they release that retention money with an advance clause of probably 5%. Small-small contracts does not carry much of retention money and they don't even give more or less an advance because these are only monthly billing.

Moderator: We have the next question from the line of Mr. Pratik Singh. Please go ahead.

Pratik Singh: Yes sir, sir could you throw some light on the performance of subsidiaries like in terms of revenue potential in the current year and next year.

J Satish: Yeah, see in terms of subsidiary company one is like Hydro Magus that is mostly to target the hydro sector there we own 75%. This year, we will be able to do 25 to 30 crores revenue & may be next year 40 crores. Oman is 70% held by us and Saudi is 51%, because of the local requirement, the execution will be done again by Power Mech. Now at Oman we got one order close to 150 crores and few more orders are in pipeline. Similarly, in Saudi also the Shuqaiq project which we are working for Hyundai done by us directly through help of a local player but now henceforth like Waad Al-Shamal or any new projects, we will do through our subsidiary company, and there also we built one order for close to 110 crores and few more projects are also in pipeline. Apart from that Noida workshop is a manufacturing unit for which COD already declared and we have an order of 10 crores and being first year of operation, this year may be 5 to 6 crores of turnover expected, next year, we are anticipating 25 to 30 crores of revenue.

- Pratik Singh:** Okay, so this Noida workshop has started on full capacity right, it was.
- J Satish:** Yeah, now it has started. And from the Nigeria the subsidiary company, it is 50% JV, the new company we are exploring opportunities. As you know like Nigeria there are some payment issues, so we wanted to be extra careful when we take any project. So we have not projected any revenue for this year, next year may be 10 to 20 crores that is what we are anticipating.
- Pratik Singh:** Okay, so FY18 for Nigeria would be somewhere around 10 to 20.
- J Satish:** Yeah, that is the maximum we are anticipating.
- Moderator:** Well as there are no further questions, I would like to hand the conference back to Mr. Sagar Karkhanis from Nirmal Bang for any closing comments.
- Sagar Karkhanis:** Yeah, I want to thank all the participants for joining and especially the management of Power Mech. Sir, any closing remarks, something that you would like us to.
- J Satish:** Yeah that is all, thank you very much. If any of you wanted anymore clarifications or information, you can always reach to the management, we can respond one-to-one, thank you very much once again.
- Moderator:** Thank you very much. With that we conclude this conference. Thank you for joining us ladies and gentleman. You may now disconnect your lines.