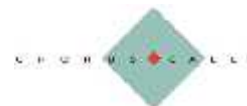




# “Power Mech Projects Limited Q2 FY2018 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the Power Mech Projects Limited Q2 FY2018 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 the questions after the presentation concludes. Should you need assistance during the conference call please signal for 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. Chirag Muchhala from Nirmal Bang Equities. Thank you and over to you Sir!

**Chirag Muchhala:** Hello Everyone. On behalf of Nirmal Bang Equities, we welcome you all to Q2 FY2018 results concall of Power Mech Projects Limited. The management is represented by Mr. N. Bhupesh Chowdary, Wholetime Director & CEO, Mr. S. Kodandaramaiah, Director (Business Development), Mr. J. Satish, CFO and Mr. K. Shishir Kumar, VP (International Operations). I now hand over the call to the management for their opening remarks and post which we can take question. Over to you Sir!

**N. Bhupesh Chowdary:** Good morning. This is Bhupesh Chowdary, the CEO of Power Mech. Thank you all of you to connect on the conference call. We are pleased to present the half-yearly results as well as the forecasted for the second half-yearly projections. I would request the CFO to take it forward on the financials of the company.

**Jami Satish:** Dear all good afternoon. This is Satish, the CFO of Power Mech Projects Limited. I will take few minutes to update on the recent results and other developments in Power Mech. You would have all seen Q2 and H1 results by this time. During Q2 we registered a revenue of 294 Crores as against 322 Crores during Q2 FY2016-2017 on a standalone basis. The EBITDA was almost 38.34 Crores as against 42.78 Crores last year. PAT is 13.9 Crores as against 16.22 Crores during last year.

Similarly H1 on a standalone basis, the revenue is around 618 Crores as against 645 Crores during last year, EBITDA of 78.82 Crores as against 87.13 Crores during last year and PAT of 29.56 Crores as against 32.87 Crores during last year, whereas on a consolidated basis Q2 the revenue is at 347 Crores as against 326 Crores last year and EBITDA is 47 Crores as against 42.44 Crores last year and PAT is 17.12 Crores as against 15.94 Crores during last year.

Further H1 on a consolidated basis, the revenue is 708 Crores as against 655 Crores during last year and EBITDA is almost 95.76 Crores as against 87.17 Crores during last year and PAT is 35.41 Crores as against 32.88 Crores during last year.

On the balance sheet front, you would have seen there has been a stretch in the working capital mainly because of GST implementation. We have been discussing with all the clients especially the government clients and they have to take a decision, so almost with more than 60% of our customers, we have amended the contracts suitably wherever it is required so there is not much impact in the service and mechanical orders, but there has been a negotiation in the civil contracts especially wherever there is supply portion is involved.

Due to GST implementation definitely I would say there is a positive side for Power Mech because of certain items, which we were not eligible to take input credit now we are taking, so definitely it will help us to improve our EBITDA, but there is a bit stretch in the cash flow as every customer is trying to -amend the contract, negotiate the contract and hence it is taking some time. It has impacted our working capital a bit for the last four to five months and I am sure this will settle down in next three to four months.

On the order book front, things are going very well. The total additions during the year and up to date is almost of 1158 Crores as against 914 Crores which we did last year. Rs 1600 to 1700 Crores is expected to be added in next four months so the backlog as on March 31, 2018, we are expecting to be around 5000 Crores as against 3700 Crores which was last year and this will give a very strong and clear visibility for execution in next few years in terms of growth.

In terms of execution during H2 we are expecting a good jump because of backlog order book what we had during the year was the additions especially from the international side, we could not add much revenue for the Nigeria contract and in view of new additions which we are expecting to add during H2. So this may help us to have a growth of almost 18% to 19% during H2. With that I am sure that by the year-end, we will have a growth of almost 14% to 15%. If we take FY2018 and FY2019 order book backlog of 5000 Crores, I am sure we will have a clear-cut visibility of 16% to 17% during FY2019.

This is from my side. Now I request Mr. Bhupesh Ji to say about some recent developments about the company.

**N. Bhupesh Chowdary:** Once again good afternoon . H1 FY2017-2018 turnover touched about 704 Crores and the in H2 FY 17-18 we are expecting about 817 Crores, which combined would come to about 1573 Crores. So looking at that we need to incrementally look at the order booking as well as the turnover should also reaches to the expected 16% to 18% for the 2018-2019 as well.

So looking at that we have made a roadmap of pipeline of projects, which are seriously in the process of clinching the deals of which we have segregated the various areas of the

business segments that we are in. So if you look at it that the civil infrastructure construction which we are actually expanding this business apart from the traditional businesses that we were in i.e erection, commissioning, and testing of mechanical and then primarily on the power sector, so moving to the non-power also is on the agenda, which we are already contemplating.

Just to give a brief introduction on the civil side of the pipeline of the jobs we are also shortlisted for few of the projects, which are in the range of about 400 to 500 Crores for an industrial zone, which is being developed in Andhra Pradesh, so there also we have been shortlisted as L1 and that is the Andhra Medtech Zone. We also have the buildings and developments of the Sarva Shiksha Abhiyan where that project is also in the pipeline, which is also contemplating to about 800 to 1000 Crores job that is already in advanced stage. Then we are also contemplating in the transmission and distribution wherein we already have an order book and backlog of almost 200 Crores, but additionally in this the second half-yearly we are targeting about almost 300 Crores, which is primarily coming out from the PowerGrid Corporation as well as the State Rural Electrification Projects so we are expecting to almost about 300 Crores to touch, so this constitutes about 1700 Crores from the new areas of civil and transmission and distribution areas and railways and roads where also we are contemplating where we are targeting to expand in this particular area of business, and all of us know that we are already doing a railway project, so also we have participated with the three major tenders from Vijayawada to Gudur and we are expecting of getting one package, which will be of around 600 to 700 Crores. From the front of the road projects, where there is not only the EPC job, but there is also a HAM job that is hybrid annuity model and optimistically we are taking out of the three even one which we are looking at that constitute about 500 to 600 Crores this would put together about 1200 Crores in the transportation sector.

I would request Mr. S.K. Ramaiah our Business Developments Director to speak about the mechanical side, , I would be able to brief where there is a domestic works that we are looking at is basically on the pipeline jobs, of the IOCL at and then the steel plant modernization of the blast furnace which will work to about 250 Crores and then the international side we are actually already in the pipeline jobs to the tune of almost 200 Crores Now I would request Mr. Ramaiah to share his views.

**S. Kodandaramaiah:**

Thanks a lot. Ramaiah here. I think the first half has been a delayed start of the project, some projects are getting delayed. We had a modest target of 400 Crores, but all these projects are getting cleared now. That is under the bidding thing, but the other things, which will be on the pipeline obviously will be the Ratanpur balance jobs that will be of 4 units of 600 Crores Jharsuguda Orissa mainly BTG on the urban centre concept Then there will be projects in Tamil Nadu, Udangudi and there are projects in Maharashtra in Bhusawal. Some

portion of these projects has been tendered and the balance around 14000 gigawatts, which are to be tendered. That is what we are expecting it while we are submitting the orders but the thing is that the power sector as all of know there are issues, but nevertheless we are trying to select the projects as to really the best we can target. Therefore our modest thing will be to get our work by the end of the year.

Now that is one thing on the short-term projects, but for the coming year there are a few projects which are expected to be tendered i.e. in Buxar which is 220 gigawatt, Salzer 260 megawatt, Neyveli 2 x 660 megawatt Jharkhand 800 megawatt Adani., The positive side, what has to be looked at is we have created the retrofitting and it will take place in a substantial manner for the improvement of the machines, **and** there is a roadmap on that and NTPC has come with grid proposal for 27000 megawatts. That is almost 55% to 60% of the installed base and the tenders have come and they are in the process of talking to the bidders GEs, Gayatri and other players and the order size of the main customers can hit 40 to 60 lakhs per megawatt.

Some of the private players may also start. That is there the next phase of investment will come and the other thing, I can only say is that the reconstruction is specific. Down the line there will be a combination of fresh units of about 5 to 8 gigawatts, the 12% or 8% megawatts and reconstruction projects about 8 x 800 megawatt and the balance will come from maybe reduction of the emission standard as per the tariff accord that total investment for 122000 megawatts has to be completed in the next coming year. The first implementation on the projects will start from 2034. There the bulk of the orders will start by the end of the year and next year to take it forward. That is where our immediate focus is and to some extent as Mr. Bhupesh has told the railways we are having three projects, and we are comfortably making it one or two and there are opportunities based on our capability what we are doing. What can I say is that we are looking at the petrochemicals. We had bid for two project in a year, but there was some qualification issues, we are still to fix that matter and we hope in another three to six months, we will get qualified for the jobs and that should finally fill up the gaps in the power sector business, because most of them are similar to these in terms of the type of work came, is it ETC erection or still to be commissioning of the equipment, civil or structure and that is when will be the next apart from what has been told. All that from my side. Thank You.

**N. Bhupesh Chowdary:** Just to add up the summing up of the order status and the order projections part of it, as of date, we have already touched about 1158 Crores order booking over and above to the order backlog of 3700 Crores. So this is additional, 1158 Crores is as on date and our target is 2800 to 3000 Crores for this year that is 2017-2018 which is around 3000 Crores we would be definitely looking at achieving that. The balance is around 1600 to 1800 that we have already targeted with the pipeline of the projects which we have actually contemplated is

actually over and above what is being planned itself. So we are easily able to achieve what has been planned for the order book for the year 2017-2018 as well. That covers around 2800 to 3000 Crores for the financial year 2017-2018.

I request Mr. Shishir to say from international business point of view.

**K. Shishir Kumar:** Good afternoon friends. This is Shishir Kumar. You might have seen the actual results. It was quite positive for international operations this year compared to the last year order booking of only 336 of what we have achieved, so today we already have 700 Crores order booking in this current year and we are looking quite positive. The things are quite moving in the positive direction in GCC as well as some African countries where we are targeting our business. We are hoping to start the revenue generation from the early next year, which is 2018 January and February we will have much more revenue generation from these projects what we have. Overall scenario looks quite good and it is all in mechanical, which we are targeting including the piping works, we are doing it in oil & gas sector as well. We are quite upbeat about it.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Rushit Parekh from Capital Markets. Please go ahead.

**Rushit Parekh:** Thanks for the opportunity. You have been with the company for the past two months and as far as the market price is concerned, but we would just like to know from a longer term perspective the vision of the management in terms of the revenue mix basically? While you have always been sharing the revenue mix in terms of say the low O&M and stuff. Can you please share what is the vision by say FY2019 or FY2020 in terms of pure revenue mix between power and non-power sector?

**Jami Satish:** In terms of revenue mix, the plan what we have got for the next two to three years i.e the O&M in power sector, which is expected to be in the range of 35%, erection business both the domestic and international, in the power sector is expected to be around 35% and the balance are all the new initiatives like civil could be power and non-power. So the civil, which used to be 15% or 18% will slightly go up now.

**Rushit Parekh:** So roughly can I assume around 15% of revenues in a consolidated level we will be targeting from the non-power sector?

**Jami Satish:** It will be 25% plus.

**Rushit Parekh:** 25%?

- Jami Satish:** Which is 15% now slowly it will go up to 25% plus.
- Rushit Parekh:** Fair enough. My second question is on the margin at the operating level and consolidated level basis. I know O&M has been constantly increasing and some of the past conference calls also the question has been answered on the overall margin perspective the O&M benefit is not actually visible in the past three years but the margin level may be because of company trying to adjust itself in terms of what was happening at the civil front and the erection front, but now from the next two to three year perspective, what do you see the margin level the consolidated level can be expected operating profit margin?
- Jami Satish:** The margins going forward definitely should improve because the revenue share from international which used to be 6% or 7% two to three years back now it is almost at 17% to 19% of the total revenues and with the increase of O&M share it is almost like 35% to 36% during 2016-2017 that is likely to continue in the same range. So with the mix of international and O&M and with the increase of Civil pie, increase in the margin portfolio may not be proportionate but of course there will be a little upside as compared to the numbers what we are reporting now. The reason being very simple now the credential what we do not have especially in the non-power sector, we are trying to go through the JV and partnership model, so we may need to compromise in terms of little margins, called as royalty, so probably the non-power sector what we are working is probably in the range of 10% to 11%, so the blended could be what we are anticipating is it could be in the range of 13% to 13.5% for the next two years. Thereafter it should again go up because we will not get into the JV once the credentials are built. That is what we foresee.
- Rushit Parekh:** My last question is on the minority interest. In H1, if I am correct the minority interest stood at around 5.46 Crores. Can you please explain me in detail what exactly this minority interest and it is relating particularly which company or which subsidiary of ours?
- Jami Satish:** We have few companies in abroad and as per the regulator requirement, we need to have local partners like in Saudi, where we can hold 51% and the local partner holds 49%. Apart from that we have one company in India, Hydro Magus especially to target the hydro projects, the company holds 75% and 25% is held by the employees. So that difference 25% and the Saudi 49% that gets being subsidiary companies the total revenue counts. The minority interest part gets eliminated as per the standards.
- Rushit Parekh:** Yes, because in the past if I see, past two to three years, this minority interest was never such a high figure.

**Jami Satish:** Now we are getting into international market aggressively so wherever we go if there is a regulatory requirement we need to have a local partner mandatorily, because we cannot hold 100% as per the regulatory requirement.

**Rushit Parekh:** Just to chip in with the last question from my side is on the working capital side. I know because of the GST as you mentioned rightly there were certain issues towards the working, but in the next two years are you seeing any update on working capital side considering the power and the non-power?

**Jami Satish:** There has been a stretch in working capital during the last four months. This should get settled down in the next three to four months, but having said with the mix of between the model what we are adopting is like a working capital intensive projects and the bidding cycle needs to be monthly and it is not milestone basis. So the debt should be more or less in line with what is existing now. We do not want to increase any debt further. If at all we need to support the new projects for mobilization and others that will be met from the final bills realization because we are anticipating almost close to 72 to 80 Crores of final bills in next seven or eight month, which we anticipated to preclose some of our existing working capital limit that fund will be used for the new projects. So the debt should not go up and the working capital should be in the range of 60 to 70 days especially the debtors part and inventory which is now around 42 to 45 Crores that may be slightly go up but the model will remain as it is the way today.

**Rushit Parekh:** So incremental revenue would not result in proportionate incremental working capital requirement?

**Jami Satish:** May not be. with the increase of civil what we are anticipating the mix of non-power it will be around 25% plus gradually over a period of two years and the model is going to be like a monthly billing pattern. The targeted projects are monthly basis. So the need of investing more in the working capital need not be much.

**Rushit Parekh:** Thank you very much.

**Moderator:** Thank you. We will take the next question from Chirag Muchhala from Nirmal Bang. Please go ahead.

**Chirag Muchhala:** Sir, on the O&M segment side, our current order book at around 880 Crores has actually seen a slight decline because typically we have been at 1100 to 1200 Crores worth of order book so I mean what is the status on that and any new projects which are coming for renewal or fresh bidding in O&M segment, if you can explain a bit more detail?



**N. Bhupesh Chowdary:** I think we have also reached a certain level of saturation, I would not use the word saturation, basically the new targeted businesses which are coming on to the O&M side, is mainly from the private IPPs and the CPPs, I mean the captive power plant or the independent power producers. Now recently the other tender which has come up from the Raichur Power Corporation Limited which is Karnataka Power Company Limited so there are the state utilities and the NTPC has a JV as well as the State Utilities have formed a corporatized power plants those entities have already started looking at us for the O&M jobs. So we are already contemplating for the O&M job of the Karnataka Power Corporation Limited, which is a government sector. The moment we get breakthrough in this, there will be a number of states which will come as part of the new requirement of the O&M job as such and we foresee that certainly this business would continue to if not grow but it will continue to give us the added value addition in terms of the sizable turnover and the order booking within the expected target that we have actually identified. And also in the O&M part we are actually not big way we have forayed in the international market, now that has already started pouring in. We are strengthening our team to expand in that particular arena to move on and then we have got a few enquiries already which we are working on them and also we are seeing non-power O&M business in the non-power has been major area of thrust that we are looking at in future we have already looking at alumina and then the steel and those metal sector, metals and furnace sector where there is going to be a substantial O&M requirements, which are already in the pipeline where different companies are rethinking like as we know the asset based companies want to have the asset, but the O&M expertise which we have the technical expertise that is to be given to the competent players like Power Mech where they could able to add value, bring a lot of innovation in terms of the O&M business for them as well. They are looking at us and we are already in discussion with a few of those entities.

**Chirag Muchhala:** Sir, on the civil work side, basically we are in the process of executing our initial orders in railways and rural electrification, so basically how is the experience of those projects which are currently under execution, both in terms of execution as well as working capital, getting money on time and if those things can be explained?

**N. Bhupesh Chowdary:** This is a very good business that we foresee. If you look at it the earlier transmission distribution primarily which used to be having a constraint primarily, there was a concern about the write off way while you lay the transmission lines, now the recent tenders, which are already coming in the government tenders particularly the PGCIL, the PowerGrid Corporation of India or the State Transmission Distribution Companies and then the rural electrification part of the requirement they are first doing the acquisition of the write off way and then floating the tenders. So predominantly 80% of the write off must be in position before they release the tender. So the previous businesses which have been got into this trouble has led into a little crisis but whereas in our case, we are pick and choose on

these kind of opportunities and we are targeting where there is a complete write off way is available accordingly we are actually bidding in those projects and we are selective on that. If you look at it our transmission and distribution area of work, we are not only looking mainly the PGCIL jobs but also the rural electrification, which the government has Yojana which has planned exclusively for this particular projects through the state entities and over and above to that we are also looking at the railways where the OHE, that is overhead electrifications, so that is an area where we are contemplated and so our niche area is very, very strong in terms of the prospects as well as the business that is yet to come.

**Chirag Muchhala:** I will get back in the queue.

**Moderator:** Thank you. The next question is from the line of Adit Dawda from Banyan Tree Financials. Please go ahead.

**Adit Dawda:** This is Adit. Good afternoon everybody. I would like to ask a question on the NHAI road projects that you have mentioned in the investor presentation. Can you give us some update in terms of what is the order book that we are looking at and what are the timelines for these projects to actually get started on the ground?

**N. Bhupesh Chowdary:** We have almost about five to six projects, which are actually come on to the table in terms of taking up. Out of the five to six basically we are looking major on the EPC side of the jobs. That means completely the EPC kind of a job where instead of getting into the hybrid annuity model because we are going step by step in terms of not jumping straightaway into hybrid annuity model so we see a very fair opportunity in this particular sector, particularly if you look at it in the past where Government of India under the National Highway Authority which was actually used to contemplate and slowed the businesses primarily on the BOOT or BOLT or the BOO basis now that has completely switched over that they are either offered on the EPC basis or on the HAM model. Now if we look at the HAM model the minimum land acquisition should have been completed almost about 75% to 80% then only they go for the tendering otherwise no. Previously it used to be not that case because of that there used to be a lot of delays and all. Now it is more favorable to the contractors and the investors in order to get into this business. So that has been already proven and successfully it is going on. Now coming to the EPC it is much more safer side and secured for us because the contract we are actually getting in and then seeing that it is executed in a proper manner in timely and with cost effective manner so that is how it leads us to better position for us with skills that we have built in and we are trying to build on so. There are three projects in Karnataka and two in Maharashtra and one in Andhra Pradesh which are already in pipeline so even though if we target out of the six one single project which constitutes almost about Rs.600 Crores that we are contemplating.

- Adit Dawda:** Thank you so much Sir. Another question is basically the debt has increased significantly so the short-term borrowings have gone up so can you just throw some light in terms of whether there was working capital constraint during the quarter?
- Jami Satish:** That is mainly as I explained there has been no change in the contract pattern because now the GST is getting implemented so almost 60%-70% of the contract were already amended and few are to be amended like railway and BHEL contracts, because of delay in amendment of contract, there was slow down in the release of the payment but we didn't hold up the payments of our vendors and the suppliers so we were resorted to the working capital limits. The idea is to retain the limit in the range of Rs.220 Crores and whatever new projects we are anticipating that all will be met within the existing limits of Rs.220 Crores.
- Adit Dawda:** Okay thanks Satish.
- Moderator:** Thank you. The next question is from the line of Sanjay Dam from Old Bridge Capital. Please go ahead.
- Sanjay Dam:** When I look at your ROCE over the last three to four years now it has come and settled somewhere around 16% for the concluded the last financial year so given the way the direction in which the business mix is expected to go forward and the resources that you would require for the same where do you see ROCE settling in other couple of years time by which time you are business alignment that been complete?
- Jami Satish:** ROCE is in the range of 17% to 20%, there has been a dip in ROCE mainly because of erection business, it was almost 42% to 45% range during the period of 2015-2016 so accumulation of returns is almost like 5% to 7%, which got accumulated and that number normally gets cleared once the project is over. Now we have closed almost more than 35 to 40 projects in the last 12 months and it is the time to start getting that fund and the moment the returns and money gets realised definitely it will add to the cash flow and that will start yielding some returns and in 2017-2018 definitely it will be in the range of 16%-17% or may be slightly less but 2019-2020 onwards that should again start improving, so the focus is to keep in the range of 18%-24%.
- Sanjay Dam:** The way the O&M is getting heavier focus on the international site does it change the way in which so how do you see the ROCE from which business going forward so you visibility improves because you work with large players and I understand that the competitive the business landscape there is also better than before. What does it due to your working capital ROCE etc?

- Jami Satish:** With the improvement of O&M business from the international market as investment is very low compared to the returns ROCE should improve. The plan what we got to ramp up the international business definitely it should help us to add another 1%-2% in ROCE so seeing the mix of like O&M erection, and non-power civil, it may range be in the range of 17% to 19% in the next two years, if we could be more successful in international O&M business and international erection business definitely it may push through but the minimum what we expect is 17% to 19%.
- Sanjay Dam:** In FY2017 when I look at cash from operating activity, the operational cash flow there is mark improvement there so all consolidated basis I think somewhere in the region of Rs.115 to Rs.120 Crores, I think. So how do you see this in FY2018 and FY2019 when again you are undertaking the alignment of your order intake etc., do we see a robust performance there or would we again see some bit of pressure there?
- Jami Satish:** We would have seen in the last three to four years we have substantially brought down capex addition because most of domestic projects are getting closure so we have existing equipments which we are moving to new projects or to the international project so the addition of 40 Crores to 50 Crores has substantially come down in FY2017 and there has been good improvement in terms of the final bills which also helped us to have operating cash flow positive by Rs.100 Crores plus. This year the strategy is almost same not much capex but unfortunately because of the GST, we have to foresee some of the delays in our existing receivables so that has stretched our working capital probably this is only temporary phenomenon.
- Sanjay Dam:** So by March 2018 that should kind of?
- Jami Satish:** By March 31, 2018, It may be either neutral or maybe slightly negative but may not be like FY2017 of Rs.100 Crores.. I am sure in FY19 the operating cash flows should be plus by Rs.100 Crores. FY2018 may be more or less flat or slightly negative because of the amendment of the contracts and all, BHEL have to take a call, railway have to take call, REC had to take call, these all are expected to be settled down in the next three to four months so we do not have much time and the cash flows from operations may not be much and I am expecting it may be neutral or slightly negative.
- Sanjay Dam:** O&M there was some mention of some Karnataka state power utility O&M possibility other than that is there anything that you are seeing from the public sector and retrofitting I understand there is also something that can be a major opportunity so how is the opportunity panning out and by what is the timeline when you see this if you could quantify FY2019 may be what kind of opportunity you see there?

**N. Bhupesh Chowdary:** As I mentioned about the Karnataka Power Corporation has already floated tender and we have participated and pursuing that which will open up the governmental entry to the O&M business in the power part of it so we are anticipating there are many such corporatized state utility companies does exists so wherein Andhra Pradesh Power Development Corporation Limited also is coming out with couple of tenders for that we are getting ready and the same way there are JVs, which are being formed between NTPC and BHEL, and NTPC with the state utilities that also has a liberty of going for O&M so in that context we are already looking at major areas of the client that would be interested to go for the O&M with the private entity like Power Mech and that will give us an edge for contemplating and even convincing the state utilities and as well as the central power companies for more engagement of the O&M business. Apart of that, the retrofitting jobs typically that is a continuous job that keep on coming to us not only from BTG overall or the boiler overall and the outages, which are predominantly now the machines which have been already installed in the last four to five years are bound to get the continuous outages, which are required on a periodical basis, so that will continue to contemplate and incremental increase only, so there is no reduction in terms of that kind of job, the opportunities, which will come and the third part of the jobs, which we are actually contemplating is almost about 27000 megawatt of the power plant, which have become old and they are going for lot many retrofit and dismantling works that would contemplate to another additional work which will be part and parcel of our O&M as well as the mechanical side of the business. Apart from these, we also see our international projects that we are already doing execution in terms of erection and commissioning, so they would also require the O&M support as we see that those plants comes into commissioning, so there also we are contemplating and we are already receiving few enquires and we are continuously following it on that, so this we see a considerable incremental increase only in the sector.

**Sanjay Dam:** Thank you so much. That is all from my end. Thank you.

**Moderator:** Thank you. Next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

**Ankit Kanodia:** Thanks Bhupesh Ji, Satish Ji for inviting us Ramaiah Ji for the call. Congratulations on decent set of numbers. Some of my questions have already answered. I have just still had a couple of questions. So in the road projects, we have already spoken our detailed focus initially with EPC, but Sir later on if we look for the second stake in some road assets, so are you going for annuity or we have been evaluating toll or annuity, and hybrid as well?

**N. Bhupesh Chowdary:** We are initially looking at the EPC that is our core strength of area of work and we are already in because the team is already in place to make it successful that is one of the area and we are also not leaving aside certain secured and good projects if it falls under the

HAM with a ticket size, which will be of our appetite that also we are looking at and because if we look at in NHAI, the HAM tenders were almost more than two to three dozens are already in the market. So we cannot get into almost that two to three dozens of the projects, so what we are looking at we are identifying within the geography and within the reach that we can able to contemplate and target those projects for us, which could really turnaround to be a new vertical under us in terms of the transportation sector, which is the Government of India is spending huge on the railway infrastructure as well as the road infrastructure, so we would like to play a key role in that particular business also, which would give us the considerable order value as well as the turnover for us to make our business more successful and profitable.

**Ankit Kanodia:** Sir correct me if I am wrong, in the road project, are we will get less margin compared to what we are getting from other segments?

**N. Bhupesh Chowdary:** No, it is not correct in fact the road and railway projects have considerably good margins, in comparison to the buildings and factories of civil construction works, so it is more of a strategic venture and we are identifying with a very cost conscious evaluation of our estimations based on the projects that we are selecting actually.

**Ankit Kanodia:** Right Sir one last question Sir, canyou just elaborate on the capex requirement in the domestic and international business maybe this year and next year?

**Jami Satish:** We are working to bring down the capex additions as much as possible. So the plan is for 2018 and 2019 may not be much of capex additional except for like new ventures wherever we are getting in, may be in the range of 18 to 20 Crores. For the power sector, we did not go for because all existing equipments wherever we are going to close the projects the existing equipments are getting shifted and on top of that your question to the EPC margins, we have used set of existing T&P and internalequipments in terms of cranes and all other heavy equipments, so we may not need to add additional cost for that item, so this will help us to absorb the PBT, because if we need additional capex, it will add to depreciation, if at all if we get 11% or 11.5% margin l in the road project in terms of PBT, then it will be a good margin because additional depreciation will not get added.

**Ankit Kanodia:** Okay. Fair enough. Thanks a lot for answering my questions and all the best for you guys in the future.

**Moderator:** Thank you. Next we have a followup question from the line of Mr. Chirag Muchhala from Nirmal Bang from Nirmal Bang. Please go ahead.

- Chirag Muchhala:** Thanks Sir. Basically with the changing revenue mix among the three segments as well as some of the new segment that you are entering in so Sir how do we see our working capital cycle, I mean changing over the next two to three years, do you have any ballpark numbers like as a percentage of sales, what levels we would be comfortable with?
- Jami Satish:** The net working capital, is to keep in the range of 65-75 days that is the model what we are adopting, and in the existing case like especially the power plants what we are doing in the erection business or civil space, the receivables are going up to 75 to 80 days because of BHEL and all though receivables are healthy but it is taking slightly longer time, but whereas in case of railway receivable cycle is hardly 35 to 40 days, so the effort what we are putting in the execution the same efforts we are putting in the collection in the power sector..
- Chirag Muchhala:** Okay and Sir final two questions some data basically, so is it possible to give the total retention money currently?
- Jami Satish:** Total retentions is around close to 276 Crores on the consolidated level.
- Chirag Muchhala:** Okay and out of this, I mean what do we expect to receive in the current financial year itself?
- Jami Satish:** This year maybe in the next four months we will make another 10 to 15 Crores, but next year it is going to be almost like 80 to 90 Crores which we are processing all our final bills.
- Chirag Muchhala:** Sir lastly international business as we are planning to scale it up so what is that contributing to current consolidated revenues and current order book?
- Jami Satish:** The revenue if we take the international side is coming almost 18%, and the order book backlog is close to 700 to 750 Crores.
- Chirag Muchhala:** Sir basically with time constraints that was the last question, so I would like to thank the management for giving us the opportunity to host the call and to all the participants for your presence. Sir would you like to make any closing comments?
- N. Bhupesh Chowdary:** Thank You very much and it is very important for us to have your feedback as well to help us. Having seen the industry as well as being in the sector for almost two and half to three decades, still I think Power Mech is undervalued. So people like you I mean as investors it is a time to grab and get onto us and we work together to make this company a wonderful entity and more profitable company as well. Thank you very much.
- Jami Satish:** Thanks Chirag.

*Power Mech Projects Limited*  
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**Moderator:** Thank you very much. On behalf of Nirmal Bang Equities that concludes this conference.  
Thank you for joining us ladies and gentlemen. You may now disconnect your lines.