

“Patel Engineering Limited Q3 FY11 Conference Call”

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**MODERATORS: MR. RUPEN PATEL – MANAGING DIRECTOR, PATEL
ENGINEERING LIMITED.
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ENGINEERING LIMITED.
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LIMITED**

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Moderator

Ladies and gentlemen good day and welcome to the Q3 FY11 results conference call of Patel Engineering hosted by Tata Securities Limited. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing star and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Niraj Agarwalla of Tata Securities, thank you and over to you sir.

Niraj Agarwalla

Good evening everyone. I welcome all the participants to the Q3FY11 results conference call of Patel Engineering Limited. We have with us Mr. Rupen Patel - Managing Director of Company and along with him is the senior management team. We would commence the call with opening remarks from Mr. Rupen Patel on the results and about the company's strategy and outlook. This will be followed by the question and answer session, where the management will answer the questions from the participants. Mr. Patel you can start sir.

Rupen Patel

Good evening ladies and gentlemen we have just given out our results. This quarter has been particularly challenging and in this quarter our performance has not met our expectations, our targets. Our turnover is down by 31% and stands at 434 crores today and profits are down from 44 crores to almost 9 crores this quarter. The reason for the dip in revenue, in the consolidated revenues now today stands at 434 crores down almost 31% because that is primarily four five reasons, one two of our major hydroelectric projects namely Teesta and Parbati were hit by torrential rains and flash floods as a result of this we had to temporarily shut down the work, indulge in clean up activities and remove the slush and stuff. So, we hit on to get any billing from that. To add to this the ministry of environment, our friend Mr. Jairam Ramesh shut down, actually cancelled Loharinag Pala Project which is due to the environmental reasons of the Ganges, so this Loharinag Pala Project we had two packages and Hindustan Construction have one package. This was fully mobilized and we were expecting a substantial amount of revenue from there this quarter and this year. In addition to that The Pranahita-Chevella Lift Irrigation Scheme, which was the largest and the most prestigious irrigation project in India, the execution of that was delayed due to the Telangana issue. Similarly, the Kotli Behal issue with NHPC which was the single largest I think hydroelectric project to be awarded in India in civil work, letter to proceed was not received from the client.

So, this year what you saw the revenue may get impacted not only by order delays and cancellations which was happened for the first time in I think my career that running project has been cancelled but we were also hit by natural calamities like flash flood. Not only were we affected by natural calamities in India but in the US also we had to shut down work due to snow, so we had the turnover from the foreign operations also reduced. So, this is what bad weather has hit us internationally and nationally this year affecting the turnover very, very substantially.

In addition to this if you look at the results our interest costs have gone up from 24 crores to almost 86 crores. The reason for the interest cost going up is that we had the Loharinag Pala

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Project wherein we had substantial revenues in terms of ForEx, ForEx primarily euros. To maintain our margins like we do in all other projects, our Foreign Exchange revenues based on the schedule program our hedged. So that our margins are not wiped out, but with the cancellation of the projects by the ministry underlying assets were not available for the same and the transaction had to be close resulting in a loss of approximately 50 crores, so that has been marked as interest and that is why you see the interest expense go up. As a result of these two you see the profits being substantially going down this quarter but I think that this obviously just hit on the hedging loss due to the ForEx and shut down is actually a one-off and myself have been MD for the last 20 years has yet to see a quarter which is one of as bad as this one. As on what has happened during the year, what actions the company is taking, we have already started work on the Teesta Project and the Parbati Project and the rehabilitation works have been over and the work has started. We are optimistic that after the Sri Krishna report is already tabled on the Telangana issue and work will start shortly, we have already large lodged the claim with the client primarily NTPC for the hedging loss and all the losses that will take place due to the closure of the Loharinag Pala Project, though we have debited to the balance sheet the ForEx loss and other losses. The Loharinag Pala project we are going to submit our claim to the extent for 200 crores, so this is where we stand today.

In terms of the order book you all know that there is a slowdown in industry sluggishness with respect to order inflows, all of you all are already reviewing or tracking other construction companies so you all know this sluggishness that has come into the industry in spite of the government wanting to spend on it on infrastructure. We had due to the sluggishness started looking outside and activated our subsidiaries because we are fortunate to have a subsidiary and operate an international markets therefore we had actually accurate it or strategize that we will be more active abroad. The order intake in the nine months as oppose to the revenue of about 900 crores of order intake has been close to 1200 crores. We have got two projects in Australia, two dam projects we have got, one project in Tanzania and we have got about the dam project in India and couple of other specialize sewerage projects in India itself. Bringing the total order book on the nine months on almost 1200 crores order intake and the total order book in spite of that we have been able to maintain over 10,000 crores. The company it has been prequalified for over 15,000 crores of work in the hydroelectric road and irrigation space I will be bidding it over the next 12 months. I am opening the floor for any questions regarding the results. We have here with me Mr. Ashok Chugh, Mr. Darshak, Sonal Patel and Vinod Chandani to answer all questions from the management team. I am opening the floor for questions.

Moderator

Thank you very much sir. The first question is from the Inderjeet Bhatia from Macquarie Capital, please go ahead.

Inderjeet Bhatia

Gentlemen the first question from my side is the current order book which is now 10,000 crore. What are the projects which not have seen any movement for last several quarters and unlikely to see movements in the near term or are still awaiting some certain critical

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environmental or other clearances and what are these projects could you let us know that number?

Rupen Patel Basically, the Pranahita–Chevella Project and the Kotli Behal Project are the two projects which has not have any movement these projects would have, we had expected that these projects will go on see them to contributor revenues from the second half of this year.

Inderjeet Bhatia What I understand is Pranahita is still waiting, Pranahita project itself is awaiting environmental clearance?

Rupen Patel The Pranahita project is not waiting environmental clearances, Pranahita project is located in the heart of Telangana so we require a notice to proceed from the government because of the political scenario there. The Kotli Behal project we have already declared L1 it has been approved by the board by NHPC does not have an acting chairman right now, okay it is not acting, it is now permanent chairman. The member finance is the chairman, so normally when you have temporary chairman any major decisions are not taken. So, I am anticipated that the chairman has been appointed but they will not keep a mini navratna without a chairman so chairman will be appointed shortly and will go through.

Inderjeet Bhatia Because recently there was a news article which said that the Andhra cabinet is requested or it is likely to move the union government in the month of February or environmental clearance that is one, second is this whole project which is likely to be on 36,000 crores even there is ratio about financing of those projects and its awaiting the requested it to be nominated as a national projects so that some kind of funding can come through from central government. Are you worried whether eventually this can also you can start work and eventually Andhra government does have the money on this project?

Rupen Patel See, some or most of project Pranahita-Chevella Lift Irrigation Scheme is going to be one of was a large major projects which is going to be funded by the central government, so-

Inderjeet Bhatia National Project?

Rupen Patel Yes, if I do not have to worry on, I am not worried so much so on the payment regarding this project not my worry up right now is the start of the project. And the other projects which I informed you since you asked me this question the projects which were awarded this year which I told you about the barrage at various stages, some of the letter of intent, some of them have been given notice to proceed so that is all, okay.

Inderjeet Bhatia That is good. Second is how much revenue was lost in this flash flood in Teesta and Parbati?

Rupen Patel Teesta and Parbati they were two projects which are substantially we would say at least about 20%, on each one 20-30 crores would be lost each quarter.

Inderjeet Bhatia 20 crores for one project?

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Rupen Patel 20-30 crores per project.

Inderjeet Bhatia So, around 60 crores has been lost in the quarter in terms of revenues?

Rupen Patel Yes.

Inderjeet Bhatia Okay, so just if you look at should we consider that 500 odd crores is the run rate revenue unless.

Rupen Patel See, 20-30 crores when you look at it, 20-30 crores per project would have been lost plus this thing, plus you have lost revenue from the foreign subsidiaries also on account of bad weather.

Inderjeet Bhatia How much is that?

Rupen Patel Sir, exactly offhand I will not be able to tell you but all of that has accounted for close to approximately, almost about 30% dip, I would account for almost 20% from these two.

Inderjeet Bhatia 20% from these two? No, I am assuming that you think that 20% of dip is because of this whole thing.

Rupen Patel Yes, because of this whole thing, and then non starting of the project also account for approximately 10%, 15%.

Inderjeet Bhatia So, if the new projects do not start 550 to 600 crore is the revenue run rate for the company?

Rupen Patel Yes, normally what happens is that you cannot take it similar the last December quarter and the last quarter cannot be treated similarly because if you look at the past history, what happens is the last quarter tends to be the best quarter. Almost 30% to 40% of our turnover comes from the last quarter.

Inderjeet Bhatia Okay that is one. Second, another part of my question is what is the current debt levels in the company?

Rupen Patel It is around 21 crores.

Inderjeet Bhatia And the receivables?

Rupen Patel Receivables, it is around 150 crores.

Inderjeet Bhatia 150 crores? Okay and sir one last thing, how much is exact ForEx loss booked?

Rupen Patel Close to about 50 crores.

Inderjeet Bhatia 50 crores.

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Rupen Patel Yes.

Inderjeet Bhatia Okay, now the only part is that-

Rupen Patel This ForEx loss is claimable from the client contractually and we have already lost the claim for the same, so it is compensatable and so in the coming quarters you will see it is being compensated.

Inderjeet Bhatia You said you have lodged a claim for 200 crores?

Rupen Patel See, what happens is, as contractually what happens is when a work which has started at its ongoing shut down for any reason, whatever loss have incurred including re-movement of the machinery, cost of the machinery, the costs incurred for mobilization, de-mobilize set up on infrastructure, all compensated by the client.

Inderjeet Bhatia Okay so the 150 crores is something or the total 200 crores, your claims 50 crores is ForEx but you have still not provided for the remaining 150 crores which-?

Rupen Patel Sir, in the government what happens is let us be very honest. If I ask for 200 I will get 100, okay. Suppose if I ask 500 because you know how the bureaucracy, (thoda chapega thoda dega)

Inderjeet Bhatia So, is this recovery of the money depending on NTPC getting its 800 crores that they have demand from the government or do you expect a resolution on this much earlier than?

Rupen Patel I expect the resolution on this much earlier.

Inderjeet Bhatia By what time?

Rupen Patel By 6 to 8 months.

Inderjeet Bhatia Okay thank you.

Moderator Thank you. The next question is from Niraj Somaiya from Span Capital, please go ahead.

Niraj Somaiya First, I want to talk to you on your real estate part, you have first one million square feet coming up which you trying to lease, what is position on that, your Bangalore project and your total real estate 1200 acres could you just throw some light?

Rupen Patel See, what has happened this year, the E&P business has not done well, let me be very honest to the real estate. Yes, the real estate on power has been forging ahead, there is good news on that front. Real east we launched one million square feet in Bangalore, we launched it in the worst period, we have been and even Bloomberg says that we are the most successful real estate sellers in Bangalore. We sold that one million square feet thereafter we launched that

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was the Smondo 1 thereafter we launched second phase of Smondo-II and that has been successful we sold about 80% of that and then we launched Smondo-III, which we have sold approximately I think 80% is already sold out. Now, we are in the process of launching the fourth phase, which is Smondo Suite and it was launched out today and the sale has been so fast that from 126 units the company has sold about 70 units on the first day. So, Bangalore is going pretty well, it is going very, very well and I think that it will give a substantial amount of revenue to the bottom lines this year and next year. I anticipate that **prill 16.55** were to started off we would have a revenue of 80 crores a first year in this year and then we will grow at 100% for the next two years, the revenues growth will be there. So, real estate will start contributing to the bottom line, slightly this year but major in next year and the year after that. In terms of Bombay we are starting construction of one million square feet, the construction is a little slow primarily due to the sand. We have already signed a term sheet with one of anchor tenants for an amount which is higher than what we had anticipated amount is close to about Rs.120 to Rs.130 a square foot so that is going pretty well too. Niraj?

- Moderator** The next question is from Anubhav Gupta from Kim Eng Securities, please go ahead.
- Anubhav Gupta** Okay, in last quarter you incurred loss of 50 crores on Loharinag Pala project, I want to understand are there any more losses that could be booked over the next two to three quarters?
- Rupen Patel** No, I do not know, there are no other losses on account of the Loharinag Pala project in book next quarter.
- Anubhav Gupta** The loss wasn't booked basically the job was completed by the client itself and quarter wise there was portions we should open in terms of the receivables and hedge, there are no currently underlying as the project was cancelled. So, ultimately you have to square it off and you have to commit yourself outside?
- Rupen Patel** If your question Anubhav is that are the future loss is coming up the answer is no, on account of this project, okay. That is the concerned answer is no, this is one time off.
- Anubhav Gupta** Right and when do you expect to complete this Mumbai project of one million square feet?
- Rupen Patel** Mumbai project of one million square feet is under construction, we have already got out of the basement and one of the buildings second buildings we will get out of the basement before the monsoon, we anticipate the completion in year-and-a-half.
- Anubhav Gupta** Okay thanks.
- Moderator** Thank you. The next question is from Vibhor Singhal from Alchemy Shares, please go ahead.
- Vibhor Singhal** Just couple of quick questions on the projects that you mentioned, so basically the Teesta and the Parbati project that you mentioned which were affected due to torrential rains, which were

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the months of this quarter that these projects were affected in which no work could be carried out?

Rupen Patel

See at the end of the monsoon period the floods came, because the monsoon the floods come, the process of going to insurance and the client accepting and writing clients as to who is going to pay for the muck removal that is a cumbersome procedure. Still clean up takes only one or two months. Our country what happens is by the time the insurance agent comes the client comes and all the drama takes place – okay so that is why actually it hits in the last quarter almost in second quarter after the monsoon and the last quarter as oppose to the quarter of the monsoon itself.

Vibhor Singhal

So, basically what I was trying to get that it was were there any losses in terms of no work done in the last quarter also?

Rupen Patel

In the last quarter, you mean this quarter, you mean this?

Vibhor Singhal

No, I mean second quarter, 2QFY11?

Rupen Patel

No.

Vibhor Singhal

No, so it is only in this third quarter we incurred these losses because of these projects not working?

Rupen Patel

Yes.

Vibhor Singhal

Okay and what would be the individual sizes of these projects the Teesta and Parbati project?

Rupen Patel

Individual sizes, one is estimated cost is about 300 crores, completion cost is about 600 crores, the second project estimated cost, the tendered cost about 300 crores and the completion cost should be around 450 crores.

Vibhor Singhal

450 crores? Okay sir and basically so you mentioned that we have expecting to start work on these projects from the next quarter?

Rupen Patel

Yes, the work was already going on, okay part of the work substantial amount to the work was already over, bidded prices were close to around 600 crores, okay but the company's revise value is little higher so what has been done, on ongoing project which is going on full swing, when if floods come and you just had to shut down overnight, okay part of your equipment was washed away and everything got covered in flash so that is what actually happened.

Vibhor Singhal

And sir the 10,000 order book that you mentioned does it include the Loharinag Pala project right now?

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- Rupen Patel** Right now, no we have removed it, we have replaced it by other projects which we have mentioned to you.
- Vibhor Singhal** Okay, so basically it is no longer part of the order book?
- Rupen Patel** Yes, because it is cancelled right?
- Vibhor Singhal** Right sir. Thank you.
- Moderator** Thank you. The next question is from Sumit Agarwal from Metlife, please go ahead.
- Sumit Agarwal** Sir, just one question these 50 crores the ForEx is it a net or the gross-?
- Rupen Patel** 50 crores what?
- Sumit Agarwal** These 50 crores of the ForEx losses that you have booked it is the gross loss and not the net loss, so you might have saved on the tax payment also?
- Rupen Patel** It is a gross loss.
- Sumit Agarwal** And also I just wanted to understand the quarterly margins for this quarter has been significant and it to the tune of 24% in spite of a lower revenue growth and if I just go up to gross margin levels, then it is much more alarming, any specific reason for this significant improvement on the gross margin side?
- Rupen Patel** No, because you have taken that the counter effect of that is WIP that is why, because that is not it appears erroneously because if you see it that way because we have taken that-
- Darshak Bhagat** If we have got a letter from the client itself that whatever the lost that you have incurred for the project please give us the details of the loss so we can give you the **22.51** back, so whatever the loss hedging that we have incurred for the project has been taken as the closing WIPs, which is ultimately receive it on the client in coming quarters.
- Rupen Patel** That is why there is interest cost with construction revenues?
- Sumit Agarwal** So, you meant to say there is a corresponding matching entry at the construction cost level also the construction cost has reduced because of the 50 crores ForEx loss?
- Rupen Patel** Yes, because yes the client is suppose to pay it back yes.
- Sumit Agarwal** Okay, so then the probably the better way if you take the 50 crores, the entire loss about the PBT level and look at the PBT margins rather than?
- Rupen Patel** Yes, correct absolutely correct.

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Sumit Agarwal Okay fine thanks a lot.

Moderator Thank you. The next question is from Sagar Parekh from Enam Holdings, please go ahead.

Sagar Parekh I wanted to know more about your tax liability issue and how much you have not provided for any of the amount in this quarter so how much can that be, if at all it arises?

Rupen Patel This thing regarding Section 132-

Speaker You see again, the proposing 132 is still going on, the tax liability if required again will be provided only when the final outcome is – but we see right now in the past what happened was that, these are all 132 even they proceeded on 132 will be challengeable in the CIT appeal and the listing therefore that is the reason, why they have not provided anything and we do not think we need to provide anything.

Sagar Parekh Okay but if at all it happens how much tax liability will that be approximately ballpark figure if you can give?

Rupen Patel Right now it would be too premature to say, let the proceedings takes place it is very preliminary stage right now to give you a figure.

Sagar Parekh Okay sir that is all from my side.

Rupen Patel I do not believe it is going to be substantial.

Sagar Parekh Okay.

Moderator Thank you the next question is from Inderjeet Bhatia from Macquarie Capital, please go ahead.

Inderjeet Bhatia Yes, this whole thing about this treatment of these 50 crores ForEx loss and I understand it right in the 50 crores there is an entry which has been done in the cost of goods, so basically if I have to look at the without assuming this to be a onetime or the profit has to be PBT has to be minus 40 crores?

Rupen Patel No, not that way, what has happened is that 50 crores has already been taken as interest cost.

Inderjeet Bhatia But I need to remove or I need to increase the construction cost by 50 crores, because your credit has been taken there?

Rupen Patel Or we remove it 50 from the interest cost.

Inderjeet Bhatia Yes, 50 crores assuming that NTPC will pay up, okay but in this quarter the reported number.

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- Rupen Patel** It is shown in interest column, you are required to show it as interest column because it is a financial thing.
- Inderjeet Bhatia** Okay.
- Rupen Patel** I mean because the requirement for accounting standards are suppose to show it an interest otherwise technically it should be in cost of construction because repayable back by the client.
- Inderjeet Bhatia** Okay, just I am sorry again for that to repeat this question earlier also, 200 crores is what your claim is but you said that normally way it work is you claimed certain amount and it went?
- Rupen Patel** Yes.
- Inderjeet Bhatia** What is the actual amount of work that you have done on the project?
- Rupen Patel** You know what happens when you shut down the project the work which you have done on the project is also measured and paid, okay. So, what happens is you have incurred additional cost or let us call it certain cost which are for the whole project.
- Inderjeet Bhatia** Mobilize and everything.
- Rupen Patel** Mobilization, installation of equipments, bank guarantees, sewer system, housing and many insurance etc, correct. Plus you have movement of the equipment suppose to go there and do so much work, so you have mobilization cost and demobilization cost, okay. In addition to that you will have certain spares, etc., on site which the client will normally takeover, so these are the costs which are client will pay for which for the work which you have done they will measure and pay you. But the additional cost which were to be let us call it differed over the entire project cost would all be paid by the client.
- Inderjeet Bhatia** Okay, so what is the total number including the work that you have done and the incremental cost that you have incurred because of this cancellation of project?
- Rupen Patel** See, totally about 100 crores.
- Inderjeet Bhatia** Total 100 crores, includes this 50 crores?
- Rupen Patel** Yes, everything a total, yes.
- Inderjeet Bhatia** Okay, second is regarding this whole tax issue have you received a notice from tax authorities according to income tax department what is the claim that you have?
- Rupen Patel** No, I have not received, had it received it I would have provided no I have not received anything else yet.
- Inderjeet Bhatia** But when it is expected because they also have to finish the entire?

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- Rupen Patel** Sir, it is legally we have about 3 months to do it and they can get an extension, if the offers are so desired we can get an extension by the two months, actually permissible by law. So, I think it should only happen next year if he does it.
- Inderjeet Bhatia** Okay thanks.
- Moderator** Thank you. The next question is from Sunder Subramaniam from Almondz Global, please go ahead.
- Sunder Subramaniam** Sir, just to take ahead the question of the losses on the one-time losses, you said that 50 crores is on account of ForEx but you know that is clubbed with interest cost, so exactly how much have you reduced from total expenditure on account of this project?
- Ashok Chug** There is no reduction in expenditure, it is an additional cost which has moved in the P&L account, there is no reduction in the expenditure.
- Sunder Subramaniam** Then how do you explain the EBITDA margins of 24.9% if additional costs were booked?
- Ashok Chug** These 50 crores of lodging loss which has taken as interest cost as per the letter from the client, it really said whatever losses or whatever expense have incurred because cancellation of this project because the statement, so we can reimburse you. So, these 50 crores I basically a reimbursable and it based on the letter which you have been asking from the client. So, it appears as the income of operation as well as WIP because it is receivable from the client as per the letter that we have got from the client.
- Sunder Subramaniam** So, these 50 crores you have reduced it from your total expenditure?
- Ashok Chug** No, it has been included in income from operations. This is reimbursement from clients that is why you see the EBITDA margins very high.
- Sunder Subramaniam** Okay, these 50 crores has been included in income from operation without any corresponding expense?
- Ashok Chug** Expense in interest cost, 50 crores has been included in income from operations and the other side of the balance sheet it has been expensed also under the hedge interest that is why you have seen that the EBITDA margins are higher.
- Sunder Subramaniam** Absolutely so if these 50 crores was not taken as income so our execution would have been still lower....
- Ashok Chug** Execution have been over less by about 5%, it was 31% by 35.5%.

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- Sunder Subramaniam** Okay, and second question is if compare the standalone numbers, here I mean the reduction in turnover is 11% so substantial hit seems to have come from our subsidiaries, so could you please explain that?
- Rupen Patel** See, primarily a lot of turnover is to come from our US subsidiaries now the US subsidiaries this year, the dam is almost over and the other backlog which are suppose to start did not start on account of weather. Now, the work which was given to us in Australia also started late, so what you will see is all of it come, the US subsidiaries take off almost on all the works next year. Okay, because quarter one is almost, last quarter is almost over. So, primarily because of the reduction of work due to environmental reasons from the US subsidiary.
- Sunder Subramaniam** Okay, so it would be fair to conclude that large part of the reduction in execution was account of the US subsidiaries?
- Rupen Patel** Yes, my friend.
- Sunder Subramaniam** Okay, sir last year like you said in Q4 we had done almost 40% of the full year's turnover so this year for Q4 what kind of guidance would you give?
- Rupen Patel** Sir, after results like this, I am scared to give you guidance, okay after what happened last quarter how we were hit by tennis ball from left right and center, I am little scared to give you guidance but I do not think, I think we should be more or less, I think you should see substantial amount of growth next year.
- Sunder Subramaniam** But sir, this year Q4 on a Y-o-Y basis still it would be declining line with what we saw in Q3?
- Rupen Patel** I do not see a substantial decline.
- Sunder Subramaniam** So, we would maintain on a Y-o-Y basis for Q4 numbers?
- Rupen Patel** I would say, yeah.
- Sunder Subramaniam** And EBITDA margins again it would tend to be similar to last year – one-off would not bid, so again it would go back to the 13%, 14% levels?
- Rupen Patel** I think that we should be able to maintain our EBITDA margins?
- Sunder Subramaniam** Okay, at 13%, 14%?
- Rupen Patel** Yes, but this year it is going to be a challenge let us see how it works out, okay.
- Sunder Subramaniam** Thanks that is it from my side.
- Moderator** Thank you. The next question is from Atul Rastogi from Daiwa Capital, please go ahead.

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- Atul Rastogi** I just had one question on this again ForEx loss, this related to hedging related to project imports or-?
- Rupen Patel** What happens is you hedge it because you get paid in foreign currencies because you have for large hydroelectric projects you have to import a lot of steel and certain parts during the project. Receivables from the projects were in euro, so that is why they were hedged. Okay, now what happens is when the contract is cancelled and you have hedged there is no underlying euro to give back, correct?
- Atul Rastogi** Yes.
- Rupen Patel** So, I am forced to close it down otherwise normally what would have happened that Euro I would have given it to them, so that is what happens, okay.
- Atul Rastogi** Okay and one other question this order book, how much is accounted for Pranahita and Kotli?
- Rupen Patel** Pranahita and Kotli in the order book?
- Atul Rastogi** Yes.
- Rupen Patel** About 1500 per project.
- Atul Rastogi** So, around 3,000 crores?
- Rupen Patel** Yes, total.
- Atul Rastogi** Okay sir thank you.
- Moderator** Thank you. The next question is from Vaibhav Jain from Religare Capital Markets, please go ahead.
- Vaibhav Jain** Sir, can you give order backlog composition as on date?
- Rupen Patel** The order backlog composition hydro is 45, irrigation is 40, and balance is others.
- Vaibhav Jain** Okay, sir secondly on the interest cost, I mean given the rise in interest rates, what kind of interest cost do you have as on date?
- Ashok Chug** The average cost of capital is around 10% to 12%.
- Vaibhav Jain** And sir on standalone business, how much debt do we have, 2100 is -?
- Ashok Chug** 2200 is console, 1400 is standalone.
- Vaibhav Jain** Okay and sir if you could the pricing on the real estate projects that you have launched?

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- Rupen Patel** The pricing on the real estate project that I have launched, I launched initially at 1850, now I think I am going at 3,000.
- Vaibhav Jain** Sir, Smondo 1 is 1850.
- Rupen Patel** Yes, 1850 plus –
- Ashok Chug** That was the base price.
- Rupen Patel** That was the base price plus you had I think Rs.400 or Rs.500 that is common all over right now it is Rs. 3400 Rs. 3500 so something at 3,500-3,600 all inclusive. So Rs. 2300 to Rs. 3500 is the range we are looking.
- Vaibhav Jain** Okay and sir I did not get the total area that you are launching here with, 126 units.
- Rupen Patel** Total area of first phase of Smondo was 1 million square feet, the second one was 0.5 million square feet, the third one was 0.5 million square feet again and the fourth one my friend I am not there, I am not sure but-
- Vaibhav Jain** Sir, broad number?
- Rupen Patel** It is about 126 apartment, 180 crores revenues approximately, okay.
- Vaibhav Jain** Okay sir I will do the calculations, thank you.
- Rupen Patel** Yes.
- Moderator** Thank you. The next question is from Salil Desai from IDFC, please go ahead.
- Salil Desai** I was trying to basically understand why euro is hedged, second question is that in Teesta you said you have started work again, is it?
- Rupen Patel** Yes Teesta have started once again.
- Salil Desai** Right, so this flash flood happened when exactly sir?
- Rupen Patel** Just after the monsoon, we will give you the exact date and the month-
- Salil Desai** That is okay, I mean I am just trying to understand whether it was beginning of the quarter or?
- Rupen Patel** No, it was just before the beginning of the quarter, normally see what happens is, it happens normally at the end of the monsoon because this has happened before, a long time ago it normally happens in the end of the monsoon, that time it happens.
- Salil Desai** And how much time did we lose in terms of activity?

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Rupen Patel Almost about three-four months.

Salil Desai Okay alright so effectively the whole quarter we could not do any work at all?

Rupen Patel Yes.

Salil Desai Right and in Parbati things are fine now or?

Rupen Patel Parbati works have started again.

Salil Desai Alright, okay sir thank you very much.

Moderator Thank you. The next question is from Sagar Parekh from Enam Holdings, please go ahead.

Sagar Parekh Sir, I wanted to know more about your power business, what is the development going on in that front.

Rupen Patel Our power business I am all ready to go except for one which I mentioned which we are still grappling with but the thing is that Tamil Nadu has a strange rule and unfortunately I am the person who is most hit. There is a five kilometer GO which says that you are five kilometers from the river, you have to take a special permission that is the only one I am grappling with. I anticipated that it would be over this month, but it not over, but the government has agreed to give it to us, once their financial closures, we have already spoken to the banker in principle agreed and it is done with Axis Bank. So, I am only waiting for this GO.

Sagar Parekh Okay so how much is the total debt 5000 crores is the total cost of the project?

Rupen Patel 3700 is underwritten debt.

Sagar Parekh Okay and the balance is equity?

Rupen Patel Balance is equity.

Sagar Parekh And you were planning to I think divest?

Rupen Patel Yes, but I will divest only after I get this GO you know.

Sagar Parekh Okay so how much have you put in exactly?

Rupen Patel Right now we have put in power about 250 crores?

Sagar Parekh 250 crores you have put in as equity?

Rupen Patel Yes.

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- Sagar Parekh** Okay and when is it expected to once, everything is in place when is it expected to start?
- Rupen Patel** I was anticipating into start work in April but I think I would be delayed by a quarter because of this silliness.
- Sagar Parekh** Okay, so then after that it will at least one year to complete the project?
- Rupen Patel** No, 1000 megawatt how can we complete in one year, it will take at least three years, okay.
- Sagar Parekh** Three years, okay thank you.
- Moderator** Thank you. The next question is from Abhinav Bhandari from Elara Capital, please go ahead.
- Abhinav Bhandari** Sir, I had few queries. First of all these 10,000 crores does it includes L1?
- Rupen Patel** Yes, some will be L1 which are recently received, yes L1, which are recently done.
- Abhinav Bhandari** What would be the amount?
- Rupen Patel** Recently L1 is roughly total about 1000 crores L1.
- Abhinav Bhandari** And could you quickly tell us this performance of subsidiaries during this quarter US, Michigan?
- Darshak Bhagat** Yes, Michigan give for the nine months, Michigan gives evidence of 110 crores with profit of five crores, US give revenues of 252 crores with the profit of 25 crores.
- Abhinav Bhandari** And what would be the order book from both of these?
- Darshak Bhagat** Michigan is around 500 crores plus and US is around \$80 million - \$90 million.
- Abhinav Bhandari** And Darshak can you please provide some balance sheet numbers inventory, loan and advances?
- Darshak Bhagat** Inventory is around 1850 crores, debtor is around 450 crores, working capital is around 2,600 crores odd, loan fund is around 2,100 crores for major numbers and the SA including capital, WIP is around 350 crores?
- Abhinav Bhandari** Liabilities?
- Darshak Bhagat** Working capital is 2300 crores.
- Abhinav Bhandari** Any update on the Noida project or the Mauritius project in the real estate sir?

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Rupen Patel The Noida project is going on. The Mauritius project I have not started, I have just started making the internal roads on that project I think that will take in internal roads will take about six months and thereafter we would start with the residential portion of it.

Abhinav Bhandari Yes Noida project how much have we sold now and at what rates?

Rupen Patel Noida project I think is totally sold out, it is about Rs.3200 average.

Abhinav Bhandari No, how much was the total area there?

Rupen Patel Two million square feet.

Abhinav Bhandari And any update on our hydro power project?

Rupen Patel Hydro power project only the clearance on the CEA is required to be done, so that should be anticipate in July after that we will achieve the financial closure.

Abhinav Bhandari That is it from my side sir, thanks.

Rupen Patel So, I would be expecting that three projects will be starting construction hydro this year?

Abhinav Bhandari And out of these 10,000 crore order book, any internal order booking that we have done?

Rupen Patel No, internal order booking done, once you do internal order booking, order book will substantially rise.

Abhinav Bhandari So, how much of amount we are expecting in FY12 from our.....

Rupen Patel From internal order book, see we are close to Rs.5000 crores.

Abhinav Bhandari That we would be booking in FY12, right?

Rupen Patel No, not booking that will be the addition to the order book, which will be execute over the next three years?

Abhinav Bhandari Right thanks a lot sir.

Moderator Thank you. Next question is from Shailesh Kanani from Angel Broking, please go ahead.

Shailesh Kanani Yes sir, most of my questions have been answered, I just wanted the break up of revenue for the parent on the standalone basis, can you give the breakup of revenue, which segments have contributed?

Darshak Bhagat Just hold on. 44% hydro, 26% irrigation, 28% others.

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Shailesh Kanani Sir and any receivables from the AP government?

Darshak Bhagat It is still standing at 150 crores.

Shailesh Kanani 50 crores, so have you seen any delays on that front?

Darshak Bhagat It is 150 crores sir.

Shailesh Kanani 150 crores and any delays on that front?

Darshak Bhagat Little bit is there seen in September normally.

Shailesh Kanani And so we are carrying going ahead with the projects or we have been slow in this project?

Darshak Bhagat We are going on.

Shailesh Kanani Okay thanks a lot.

Moderator Thank you. Next question is from Subramaniam Yadav from PINC Research, please go ahead.

Subramaniam Yadav Hi sir, I just wanted to know the sales breakup, how much real estate component area is there is the sales?

Rupen Patel The real estate components for nine months is 66 crores, the net profit of 3.5 crores.

Subramaniam Yadav And for the quarter sir?

Rupen Patel For the quarter it is around 13.24 crores with a net profit of 38 lakhs, it is negligible.

Subramaniam Yadav Okay, is this one of the reasons why your margin is slightly better?

Rupen Patel No, the better margins are normally been the highest in the industry because of the area we operate in, it is not because of real estate, real estate has not started reflected in the margin, real estate will start reflecting margin in next year.

Subramaniam Yadav Okay and sir how do you see core business going ahead in the hydro orders or any road project which we are likely to get?

Rupen Patel Sir I do not see any difficulty in the core business except for delays and environmental calamities issues which we have faced this year. Normally there has not been any hiccup or such nature hiccups in our core businesses, so order book is 10,000 crores that gives us enough work for the next 2.5 years.

Subramaniam Yadav Okay sir any BOT projects, which we are L1 right now?

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- Rupen Patel** No, no BOT project which we L1 right now.
- Subramaniam Yadav** Okay thank you very much sir, thank you.
- Moderator** Thank you. Next question is from KC Suri from Span Capital, please go ahead.
- KC Suri** Hi, sorry we got disconnected earlier, you were mentioning about your real estate, I do not know if you have already replied it, could you just repeat on the real estate in Bangalore and Bombay?
- Rupen Patel** See real estate in Bangalore is going well, we launched Smondo-I like I already said it was about one million square feet, which was sold out, then we have got Smondo-II which was sold around 80% we launched -- so again half a million square feet. Now, we are launching the town home Smondo, which is launched today or yesterday, which we presold which has been towards 70 units out of 126 units. As far as the Patel Estate one million square feet of office space is concerned we have always signed a term sheet with the anchor tenant for about 1.5 lakhs square feet at a rate which is about 20% higher than what was anticipated. We anticipated that on lease we would get about Rs.100 a square foot, that will give us a total revenue of about 100 crores year-on-year in terms of rental. By anchor tenant has signed up at about Rs.126 or something so it is needless to say that the other tenants would be higher so the yield should be at least 25% higher but close to 125 crores year-on-year. The project completion for the Bombay project is about 1.5 year. And then you will have fit out for six months, hello.
- KC Suri** Yes thank you so much.
- Moderator** Thank you. The next question is from Inderjeet Bhatia from Macquarie Capital, please go ahead.
- Abhishek** You said the nine months order inflow has been 1500 crores.
- Rupen Patel** 1200 crores.
- Abhishek** 1200 crores and sir the order inflow in first quarter and second quarter was around 2700 crores, so if there has been some order cancellation?
- Rupen Patel** No, there is a mistake, there is some mistake somewhere.
- Abhishek** Sir, we started with FY10 at the end we had around 93 crores order book and at the end of the quarter one of '11 we had 100 billion order book, which means, 7 billion from there and 7 billion of sales?

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Ashok Chug Even if we go by that because there are certain contracts have been revised in terms of value like **46.27** which was revised from 300 crores to 900 crores, so that would keeps on changing on the revised contracts that we get from the client.

Abhishek Okay thank you.

Moderator Thank you. The next question is from Milind Muchhala from Barclays Wealth, please go ahead.

Milind Muchhala Can you give us some details about the transmission project and the road BOT projects?

Rupen Patel The transmission projects which we have got, we have got in joint venture with Simplex and BS Transom with Patel has 34% as a major partner and rest of 33%-33%, so this is a double circuit line which have been 65 kbs work on the project is right now we have just taken over the FCs and work on the project is expected to start in the next two months, okay.

Milind Muchhala Okay and what is the size of the project?

Rupen Patel The size of the project is about 300 crores.

Milind Muchhala And this entire revenues will accrued to us or how will it be?

Rupen Patel It is basically a BOT project, the transmission project the entire revenues will accrue to us in the next 35 years.

Milind Muchhala Okay and what about the road BOT projects?

Rupen Patel Road BOT we do not have any road BOTs, I do not know where are we coming from road BOT.

Milind Muchhala So, we are totally out of it?

Rupen Patel We have commenced two projects and we have securitized them.

Milind Muchhala So, we have no holding over there?

Rupen Patel We have no major holding there no.

Milind Muchhala Okay and there was some news about some fundraising plan, so?

Rupen Patel There is no fundraising and what has happen gentleman is that we always keep a resolution valid for the last three years, whenever the resolution lapses we get validated, okay there are no fundraising plans, there are no dilution plans.

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- Milind Muchhala** Okay and in terms of the order inflow are there any specific orders where the visibility is better in terms of say over the next couple of months or something?
- Rupen Patel** I would say the visibility, what do you mean by visibility, you mean and in terms of getting into turnover you mean?
- Milind Muchhala** No, in terms of we getting the orders where we think we could be like?
- Rupen Patel** See I am looking, Indian market is more sluggish I would see that more what will come from overseas markets now, our concentration would be the overseas market to balance the sluggishness in local market.
- Milind Muchhala** Okay and some in news items related to some IT rate or something, so any insights over there?
- Rupen Patel** We had 132 given now in notes to accounts, right now the exact amount is not known, so we would be provide at that one once the final outcome the proceedings have done.
- Milind Muchhala** Okay, so when can we have some sure thing about what is the outcome of that thing?
- Rupen Patel** Normally it takes three months and then he can have a further extension of two months, so anyway between three to five months we can know.
- Milind Muchhala** Okay but will it impact the profitability in any manner?
- Rupen Patel** I do not think so.
- Milind Muchhala** Okay thanks a lot my questions have been answered.
- Moderator** Thank you. The next question is from Sunder Subramaniam from Almondz Global please go ahead.
- Sunder Subramaniam** Sir, just the clarification, the balance sheet number that you gave on the consolidated-?
- Rupen Patel** Both consolidate and standalone both have been given.
- Sunder Subramaniam** No, inventory is 1850 crore.
- Rupen Patel** Standalone.
- Sunder Subramaniam** Can I have the consolidated numbers, inventory, loans, and advances and debtors?
- Ashok Chug** That we will mail you Sunder because there will be still certain compilation of US as well, after that we can mail.
- Sunder Subramaniam** Okay thanks.

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- Moderator** Thank you. The next question is from Subramaniam Yadav from PINC Research, please go ahead.
- Subramaniam Yadav** Yes sir, the subsidiary numbers for the quarter sir, the Michigan and the US one?
- Rupen Patel** Both are subsidiaries account for approximately 20% of the turnover.
- Subramaniam Yadav** 20% of the turnover? Okay and sir this 50.33 BOT project, how would we accrue the revenue, how does it work sir?
- Rupen Patel** See there are power, they have given guarantees to PTC, the people who are constructing power projects, private power projects have given revolving guarantee to the PTC, so from that x-amount of power has to be transported over that light and we will be get paid through the revolving LC. There is a minimum guarantee which the government gives you and over and above there is top line.
- Subramaniam Yadav** Okay so there is any fixed revenue which we would be getting from it or depend on the traffic?
- Rupen Patel** 1000 crores.
- Subramaniam Yadav** 1000 crores over a period of?
- Rupen Patel** 35 years.
- Moderator** Thank you the next question is from Parvez Akhtar from Edelweiss Capital please go ahead.
- Parvez Akhtar** One of the current order book of 10,000 crores how much is the domestic order book and how much is overseas?
- Rupen Patel** Say approximately \$80 million plus about 300 crores Tanzanian order, which will be around overseas, so this year about \$90 million, 600-700 crores.
- Parvez Akhtar** Okay and of these 10,000 crores you said about 1000 is L1, so I am assuming that probably work has not started there?
- Rupen Patel** 10,000 crores?
- Parvez Akhtar** Yes, of the 10,000 crores I guess, you mentioned 1000 crore is L1?
- Rupen Patel** Not 1000 crores, see what happens is on part of the works which have got in last nine months, part of them are under contracts are being signed, part of them are under mobilization state and part of them the tenders are opened and we are declared L1, okay. So I just gave out an arbitrary numbers, out of the 1200 crores, so about 1000 crores we are L1. But I think that this should be converted into contract sign and mobilization with the next month, month-and-a-half.

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- Parvez Akhtar** Okay, sir my question you know what I wanted to get a sense was that how much of projects or what would be the size of projects which would contribute to revenues next quarter because it sometimes happens that while you have won a project mobilization, etc., takes about four to six months and they enter into a revenue generation stage only later, so since about 3000 crores of Kotli-Behal and Pranahita-Chevella work are not moving as fast as we had anticipated?
- Rupen Patel** There is about 6000-6500 crores worth of projects which are under executions it will contribute to the revenue next quarter, okay.
- Parvez Akhtar** Okay and sir last question from my side. The US orders wherein we face problems because of snow, what is the size of those projects and what would be the approximate revenue loss because of this problem?
- Rupen Patel** I think it is normally the US have revenue is around approximately 20%, okay. Now, the size of the orders in the US is say about 70 to 80 million but there the cycles are not suppose to India is 18 months to two years, okay.
- Parvez Akhtar** Okay, yes sir thank you.
- Moderator** Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Niraj Agarwalla for closing comments.
- Niraj Agarwalla** Thank you everyone for participating in the call. I specially thank the management of Patel Engineering for giving us an opportunity to host the call. Thank you very one.
- Rupen Patel** Thank you everybody.
- Moderator** Thank you. On behalf of Tata Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.