



“Ircan International Limited  
Q3 FY2019 Earnings Conference Call”

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**MANAGEMENT:**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Ircon International Limited Q3 FY2019 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Shah from Axis Capital. Thank you and over to you Sir!

**Ankit Shah:** Thank you Raymond. Good afternoon everyone. On behalf of Axis Capital, I welcome you all to the Q3 FY2019 earnings conference call of Ircon International Limited. We have with us today Mr. S.K. Chaudhary – Chairman & Managing Director and Mr. M.K. Singh – Director, Finance of Ircon International Limited.

We will start with a brief presentation from the management post which we will open the floor for Q&A. I will now handover the call to management for their opening remarks. Over to you Sir!

**M.K. Singh:** Good afternoon and good evening to all of you. I Mukesh Singh, Director, Finance. I welcome you to Q3 FY2019 concall. Mr. S.K. Chaudhary, CMD Ircon will be joining us any moment. Yesterday the company has announced unaudited financial result for Q3 as well as nine months period ended December 31, 2018. Financial results of the company have already been disclosed on NSE as well as BSE. Now I will be taking you through the key performance parameters of the company in Q3 FY2019 and nine-month period ended December 2018. After this brief, we will be open for questions. We will be happy to answer to the best of our ability.

Financials, your company has shown growth in topline as well as in the bottomline in a nine month period ending December 2018. Operating turnover of the company has increased to Rs.2882 Crores in nine-month period, from 2003 Rs.193 Crores in the corresponding period FY2018 showing a growth of 20.42% over FY2018. PAT of the company has also increased to Rs.349 Crores in nine-month period ended in December 2018, from Rs.171.55 Crores in the corresponding period of FY2018.

The core EBITDA for Q3 FY2019 is Rs.114.35 Crores that is 9.40 of the operating revenue against Rs.111.35 Crores of Q3 FY2018. International segment of our business has contributed 14% of the operating revenue which was 14.24% in FY2018. Now just let me inform you that our Chairman, Shri. S.K. Chaudhary has also joined us and he is with us, so he will be taking part in the discussion. In the meanwhile, I will read the highlights of the financials. So as I was saying international segment contributed 14.07% of operating revenue, which was 14.24% in FY2018 in the corresponding period. Company is striving to increase contribution from international segment and it is expected to see the growth in revenue from this segment in very near future.

Your company maintains good order book of more than Rs.26000 Crores as on December 31, 2018, which consists of 95% of domestic orders and 5% in overseas orders. Sector wise 88% of the order book comprises of railway projects, 9% from road, electrical work 2% and building 1%. A total cash and bank balance as on December 31, 2018 is Rs.3067 Crores which comprises of own fund of Rs.475 Crores and Rs.2592 Crores of client fund.

In infrastructure sector, first three quarters are not the real representative of the whole year. Normally, last quarter of the financial year registered higher growth has compared to the first three quarters; however, the momentum has already commenced in Q3, which shows a comparatively higher turnover than the corresponding period due to faster execution of projects and quick decision making. Good momentum in growth in topline is expected in Q4 with further improvement in the bottomline as well. Thank you so much. Now Mr. Chaudhary is with us, so he will be taking over and leading the discussion.

**S.K. Chaudhary:** Good afternoon.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Jonos Phutaa from PhillipCapital. Please go ahead.

**Jonos Phutaa:** Thank you for the opportunity. Sir just wanted to sort of better understand the slowdown of this sales growth down to earnings, so we have seen like a good 35% jump in your Q3 topline, but our bottomline has in fact declined year over year, one reason what I see is very sharp fall in profitability in the international segment and there was a slight dip even in the domestic business. So if you can just help us understand what is happening there and whether you still stick to your full-year target of Rs.4600 Crores odd of topline and a flattish EBITDA margin for the year that is my first question?

**S.K. Chaudhary:** If you see the EBITDA margin, it has gone up from the last quarter and even in the nine-month period if you see. In nine-month period if you compare our performance up to December 31, 2017 and December 31, 2018, the total EBITDA was 17% and now it is 12%. So the core EBITDA that is profit before tax depreciation finance cost is Rs.111 Crores last year and this year it is Rs.114 Crores, so this is the thing as DFS already explained that whenever we do the work it is the last quarter generally in which the maximum momentum comes in because after the rains generally which goes up to the June and July and sometimes up to in Maharashtra area quite late. So it all momentum picks up in January, February and March, December onwards. November, December, January, February and March, so these are the five months where we get the maximum performance. So if you see our revenue growth has gone up definitely but the profit margin which you have seen is because of decline in the foreign business. Domestic Business as on date is only 14% of our order book, so which is quite less, we feel it is quite less and that is why we are making all our efforts to secure more projects in foreign countries. 2019 is the year in which our focus is mainly on the foreign projects and in some of the things, we got

successful, but we cannot tell you right now until and unless orders are in hand. We are already in very advanced stage, we expect something good news which may come within one month, which we have already one in this thing, but we will tell you once we get it, because we cannot disclose certain things at this moment, but most probably by March first week or second week it will come. So that is one and we also expect few more orders from the foreign countries where the procedure of tendering has started because of the Malaysia some issues were there, but now they are coming up with tenders and we are also participating in bids in other countries in Rwanda and many other countries Africa and our South East Asian countries plus SAARC countries. So we feel that our order book definitely will grow in the foreign business and the profit margin will definitely increase and as the revenue as you said that the revenue growth if you see has gone up in the quarter-to-quarter basis also and Q3 of last year to this quarter, but our profit will also go up, because once the revenue... overheads are almost fixed only the profitability will increase because more the turnover, more the profitability will be there.

**Jonos Phutaa:** Got it. So basically the reason I was asking because the sales contribution of the international business is more or less the same year over year, so in Q3 it contributed 15% of sales, and Q3 2019 it is about 14% odd, so the swing has been largely in the profitability of the international business, but leaving that aside, in the last call you sort of also highlighted that you are L1 in a project in Sri Lanka?

**S.K. Chaudhary:** That is what I am saying, we are going to get it next month.

**Jonos Phutaa:** Okay and what is the status also for the Bangladesh three rail projects?

**S.K. Chaudhary:** Bangladesh we are already executing one railway project and we have bid for road project also, the result is awaited as they are doing evaluation of the same. So that also we will take about a month or so about this. Then we will also participate in Rwanda where we have already pre-qualified. We are also participating in Abu Dhabi the big projects in joint ventures with many companies, foreign companies and Indian companies. Because size of the projects are quite large, these are somewhere around Rs.12000 Crores and Rs.5000 Crores, so we are trying on that level also, these all bids will be submitted somewhere within two or three months maximum. Then results will be awaited. Our focus totally is now on the foreign projects.

**Jonos Phutaa:** Okay and last question if I can squeeze in, so we had invested about Rs.843 Crores in the road projects or the BOT assets out of the 1100 that was required. Has there been any further infusion in the current quarter to that extent?

**S.K. Chaudhary:** Two road projects already have started operations, one, the Shivpuri Guna we have completed last time, which completed one-and-a-half month before the scheduled time and toll revenue has started and being collected. Now the second project also we have completed in Bikaner Phalodi last month which has been inaugurated by Honourable Minister Mr. Nitin Gadkari. So there also

the toll will start either on March 7, or March 8, so this is the thing. Further infusion will not be there because of the projects have been completed.

**Jonos Phutaa:** Alright. I will come back in the queue. Thank you.

**Moderator:** Thank you. The next question is from Piyush Chadda from Farenheit Capital. Please go ahead.

**Piyush Chadda:** Thanks for taking the question. I had two questions. First of all on a consolidated basis, our profits last financial year were on Rs.20 Crores higher than the standalone profits. This year are the subsidiary we expected to make more money or should we pencil in something similar to Rs.20 Crores additional profit again?

**S.K. Chaudhary:** Subsidiary one company we have a joint venture now with railway and development authorities that is an Indian Railway Station Development Corporation. So there was few issues which have been resolved by cabinet. Now, they are coming out with few EPC contracts where the fees will be in the form of PMC to them because the real estate is down, they also amended to develop the railway land. So that is why we are coming with EPC contract, but the company's income will be from PMC and the other company which is the Ircon Infrastructure Services Limited that company has also started some of the projects on PMC basis and we feel that we will get around Rs.20 Crores profit from that.

**Piyush Chadda:** Thank you very much. The second question, the land that we own in BKC, it is on our books that are financed entirely by the Government of India in terms of interest and principle repayment. The service charges Rs.20 or Rs.25 Crores forgot the exact number, is there any other right that we have if we find a developer for the land, is there any other source of income that could come from that?

**S.K. Chaudhary:** That is there, whatsoever maybe the sale of the land and if you find a developer then we will get around 8% of the cost. Let us say for example hypothetically Rs.3500 Crores, so 8% of that will come to Ircon as their efforts of doing that.

**Piyush Chadda:** Finally my last question, you are looking at next year onwards should we be looking forward at 20% kind of growth rate again?

**S.K. Chaudhary:** That is why our target is that what we are thinking to touch around Rs.5000 Crores next year and that is our target set up with the ministry, but if these projects come up suppose in the month of as I told you March or April which we are waiting the new orders for foreign then it may cross that also.

**Piyush Chadda:** Thank you so much Sir.

- Moderator:** Thank you. The next question is from Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dikshit Doshi:** Thanks for the opportunity. Firstly Sir, in the press release it was mentioned that there are some Rs.109 Crores of income tax refund. In Q2 it was some Rs.24 Crores, so rest all is in Q3 or there was some income in Q1 also?
- S.K. Chaudhary:** Interest is in Q1.
- M.K. Singh:** There is a total refund which we got that amounts to Rs.106 Crores out of which Rs.84 Crores is on account of tax and the rest is on account of interest. So the interest portion has been taken in other income and the tax refund has been shown that is amounting to Rs.84 Crores as the reduction in the tax outflow.
- Dikshit Doshi:** Okay, secondly Sir in terms of international business. I suppose in domestic we do some 10% EBITDA margins, so whatever tender you are saying we are going to build in next couple of months, so what could be the margin there?
- S.K. Chaudhary:** Definitely margins are more, but now it is very competitive, we expect around 15% to 20% margin there.
- Dikshit Doshi:** Okay and lastly if you can just elaborate on, so we have two line of cash, own cash and client's money, so how we record the interest income and expenses on the client's money?
- S.K. Chaudhary:** Simple in any Government of India, in any company they give you advance for doing the works and whatsoever the interest accrued is ploughed back to the project itself, so it is not our income, it is the income of the government, so it is given it in the same dedicated account maintained for that.
- Dikshit Doshi:** So we do not record in it other income also and not the interest expense also?
- S.K. Chaudhary:** Yes, you are right.
- Dikshit Doshi:** So what was the reason for such fall in the interest expenses last year it was from Rs.52 Crores for nine months and this year is just Rs.10 Crores?
- M.K. Singh:** Actually that interest expense of Rs.48 Crores last year was due to the Ind-AS adjustment actually amortization. So that was a notional figure which was appearing. There were no actual interest expense, it was raising only because of Ind-AS adjustment, unwinding essentially.
- Dikshit Doshi:** Okay, thank you.

- Moderator:** Thank you. The next question is from Mayank Goyal from SBICap Securities. Please go ahead.
- Mayank Goyal:** Good afternoon Sir. A couple of questions. This quarter margin has declined by 285-basis points to 9.4, I remember you were saying last time that there was a provision of Rs.64 Crores which was booked in H1 of previous year and which was reversed in H2. So was there any reversal of that in Q3 FY2018 and if yes can you quantify that?
- M.K. Singh:** Let me set the record straight. If you see the nine-month period comparison of 2017 and 2018 then we have a PBT of Rs.237 Crores in 2017 and Rs.391 Crores in 2018. So you are comparing only Q3 versus Q3. If you compare nine-month period of the previous year through the nine-month of the current year, then the PBT is Rs.237 Crores and Rs.391 Crores respectively and the core EBITDA percentage last year was 6.08 for nine months, this time it is 7.65. So that is one which I want to clear to all the people who are with us in the concall. Simply seeing it on Q3 to Q3 basis essentially there was some adjustment done because of some provisioning which was made in Q2 of last year, people who are in foreign projects which was undone in Q3 of last year in the same foreign projects that is why in the Q3 of last year, there was a jump and it was Rs.112 Crores and this year that provision does not exist that is why it is Rs.102 Crores odd.
- S.K. Chaudhary:** If you see that nine months period itself last year nine months we were at 2393 operating revenue and now we are at 2882 and as he said the profit before tax Rs.237 Crores and Rs.391 Crores. So our growth is increasing in both directions, because as I said that overheads are fixed, employee cost is fixed, other things are fixed, the faster execution makes the profit. So that is the only reason that as the turnover will grow profit will keep on increasing and we hope that it will be much better in the next quarter when you see year-on-year.
- Mayank Goyal:** Got it Sir. Next question is for the current quarter ending, the order book stands roughly at Rs.26000 Crores, so effectively it suggests that there were no major order inflows in this quarter, so...?
- S.K. Chaudhary:** We have explained it number of times, since we were going in IPO that our order book is... this order book which is executable order book. We consider those projects, which have started for which we have awarded the works through the various agencies for execution. On Rs.26000 Crores suppose the project value is suppose Rs.5000 Crores, out of Rs.5000 Crores we could award the work of Rs.1000 Crores so that will go to the order book, balance 4000 we will take when the other clearances will come in. Suppose we are doing a railway line project there is a forest in between 50 kilometers so that 50 kilometers whenever the forest clearances, other things will come and we will award the contract then it will come in our order book, so this is on executable order book. We are going to award many more works now in our Sikkim connectivity projects for which already we have invited bids of around Rs.2500 Crores which is going on and many like this.

- Mayank Goyal:** Including the unexecutable portion what will be the total quantum of our order book?
- S.K. Chaudhary:** That will be quite large. If you see even in Jammu & Kashmir itself, so it is quite large which we have still yet to do say we have yet to do track work, we have yet to do the thing, our electrification. We had to do signaling because now we are focusing only on tunnel lining that is the first activity then ballast less track will be the second activity then rectification and signalling will be parallel activity. So all these things if you put that project itself, the balance value of work which we are yet to award will be around Rs.8000 Crores roughly.
- M.K. Singh:** To add to CMD's response, the total value of the work out of which order book is showing Rs.26000 Crores, the total value of such work will be approximately Rs.51000 Crores.
- Mayank Goyal:** Okay, so the basic query was whether there were any order inflows in Q3 and what would be the quantum of that?
- S.K. Chaudhary:** This is the order inflows because we already have orders, the only thing is we take the only those orders in our executable where work starts, because these are the projects which are passing through so many sanctuaries, wild life tiger reserves and other areas, so it takes time for clearance of those things. Once we get all the clearances then only we consider this as an order matured for execution.
- Mayank Goyal:** Okay Sir. Next question is in the last call you have mentioned that the total investments in the subsidiaries including both the equity portion and debt portion is somewhere around Rs.1693 Crores, so what will be that amount as at Q3?
- S.K. Chaudhary:** The total which we have said that we have invested equity was Rs.893 Crores, in subsidiaries which are in the road sector and in the joint ventures. The total committed equity which we have done is around Rs.1091 Crores, so balance yet to be invested is Rs.198 Crores. This is the balance equity which we have to infuse in these projects.
- Mayank Goyal:** And the debt amount Sir?
- M.K. Singh:** Debt committed is Rs.2511 Crores out of which we have already paid Rs.941 Crores.
- S.K. Chaudhary:** Debt is that which we have not taken from anyone from our own reserves, we are executing these projects, road projects and this we are giving us at arm-length distance to our SPV who is executing the project, so that is why this loan which we are finding out is our own money invested in the projects, so total money if you find together invested as on date is 2511 plus 893, so that is the money already invested in this road projects apart from the money which we have invested in real estate-owned projects.
- Mayank Goyal:** Just to correct, is it 2511 plus 893 or 941 plus 893?



- M.K. Singh:** 941 plus 893.
- S.K. Chaudhary:** Sorry, 941 plus 893, you are right.
- Mayank Goyal:** Last question from my side. Have you got the appointed date for Vadodara Kim?
- S.K. Chaudhary:** They have signed it for the land and the appointed date I think we will get it after a month.
- Mayank Goyal:** You have received the FC letter from the NHAI?
- S.K. Chaudhary:** We have got it.
- Mayank Goyal:** That is it from my side Sir.
- Moderator:** Thank you. The next question is from Ashutosh Adsaare from SBI General Insurance. Please go ahead.
- Ashutosh Adsaare:** Thanks for taking my question Sir. What are the measures you would be taking to expand your return on equity?
- M.K. Singh:** If you see the EBITDA margin which we are having that is showing a flat percentage because of the lessening of the international projects, so the answer to your question is increasing the revenue from international project because that has a higher margin, so return on equity – you are talking of return on investment right?
- Ashutosh Adsaare:** ROE Sir?
- M.K. Singh:** Okay, so again ROE will also depend on what kind of international projects we are taking and what competitive margins we are getting in the domestic projects. In nomination projects of course we do not have a very high margin, but in international projects certainly we get around 15% to 20% of margin that will improve our ROE.
- Ashutosh Adsaare:** Okay, second question do you face any execution delays in any of your international or domestic piece as of now?
- S.K. Chaudhary:** There are in small, small projects and it happens in international projects also and in the Indian projects it happens, you will know that there will be some stay because of NGT and someone will put PIL.
- Ashutosh Adsaare:** Okay, so out of that Rs.26000 Crores of order book, so how much percentage would be slow moving orders?

- S.K. Chaudhary:** In this there is nothing at all. Likewise, I told you that we get the awards where we have clearances. Only when the clearances are in hand, we do not do the project.
- M.K. Singh:** To add to that we are having turnover showing an increase of 20% goes to show that we have speeded up our execution.
- Ashutosh Adsaare:** Okay, Sir any plans for acquisitions on your cards?
- S.K. Chaudhary:** Acquisition of what?
- Ashutosh Adsaare:** In terms of road assets.
- S.K. Chaudhary:** We have not acquired any of the constructed road assets, we already have five projects which out of that three are on BOT, two are on hybrid annuity, so we do not want to invest further in our money in this, but definitely we will look for EPC business, the cash business rather than putting money there.
- Ashutosh Adsaare:** Okay. That is it from my side.
- M.K. Singh:** We intend remaining asset light all the time, we are execution agency and not asset management agency.
- Ashutosh Adsaare:** Thank you so much.
- Moderator:** Thank you. The next question is from Chintan Seth from Sameeksha Capital. Please go ahead.
- Chintan Seth:** Thanks for taking my question Sir. On Rs.26000 Crores executable orders you are talking about, what is the timeline which will be required to execute the entire Rs.26000 Crores?
- S.K. Chaudhary:** Out of that J&K is such a thing which takes time. In J&K times like now the landslides are taking place. Because when you go to the tunnels, you make approach roads which are of the length of somewhere 8 kilometer, 10 kilometer, 15 kilometer to reach to the only tunnel side, so there you find landslides, road gets damaged and we keep on repairing. There local agitations also keep on happening and then sometimes the road is from one side only from Jammu to the Srinagar. There is traffic for a period of week or so, one week this side, one week that side something different, trucks are not allowed, so there we find it will be slow, but other places it will not be slow.
- Chintan Seth:** Out of Rs.26000 Crores what will be the value of J&K project 5000 or around?
- S.K. Chaudhary:** J&K project which we have in hand is about 4200 Crores.

- Chintan Seth:** And balance around Rs.22000 Crores odd what will be timeline to start, within three years, it will get started?
- S.K. Chaudhary:** Some projects are of three years, some are of five years, because in railway projects once we execute we start everything, it is not just like NHAI where they give you all drawings and other thing and this railway projects everything has to be done by us.
- Chintan Seth:** Correct, also what about the two big orders what is the status?
- S.K. Chaudhary:** Which was the other project you were asking one is DFC, other is?
- Chintan Seth:** Yes.
- S.K. Chaudhary:** They do not give financial closure, so the SBI is our lead, so they wanted us to do all, it is about 18000 most probably within a month or so they will do it.
- Chintan Seth:** What is the amount for this project?
- S.K. Chaudhary:** Rs.4900 Crores, almost all land acquired, all the clearances are with us.
- Chintan Seth:** This is including Rs.26000 Crores or not?
- M.K. Singh:** No, CWRL is not included, because we have not tendered the entire quantity.
- Chintan Seth:** The Baroda project what is the status?
- S.K. Chaudhary:** Rs.2170 Crores is for the project and the physical progress that is somewhere around 15% and since the payment is a long drawn process, it takes two months for releasing the payment, but we feel that Gujarat portion which is a major portion of 110 kilometer or 180 kilometer, major Gujarat portion we will be able to finish by May.
- Chintan Seth:** Okay and you were speaking about the international projects we are looking at mode is coming from what kind of mix will be a balanced one for you to have international in our revenue or order book?
- S.K. Chaudhary:** We are just going into two things right now, railway and road, since these are large projects, but buildings and others are very small projects, like 150 Crores and 200 Crores, we do not go in that and it is very difficult to execute such projects also, such small value because your expenses are quite high, so we are focusing only in railway and road. As I said road projects already we have bid in Bangladesh, we expect the result to come, railway we are already lowest in Sri Lanka order is likely to come next month, because it is in their cabinet, ME has already received their approval and then Rwanda we will be doing road project then in UAE Emirates which is

connecting from Saudi, Abu Dhabi and then Jumeirah and Dubai, this line will go to Oman. So this is the line which they are constructing for which we have prequalified as a partners with Spanish company and one more Indian company and another tender we are going also with one Indian company, it is quite as big as or rather more bigger than so we are together going another tender about Rs.5000 Crores here.

- Chintan Seth:** And lastly Sir if I can, what will be the capex that will be spending next year, this year apart from the investment in terms of standalone business, what kind of capex you will require?
- S.K. Chaudhary:** Capex in the sense is what?
- Chintan Seth:** In terms of plant and machinery heavy...?
- S.K. Chaudhary:** The operator will put this into complete, he will run the mall and we will just get the rental income and two more offices complex, which we have built, in Noida, so this is what our capex is going in these directions.
- M.K. Singh:** As far as expenditure in capex is concerned, in the current year we will be ending up somewhere around Rs.120 Crores and next year another Rs.110 Crores to Rs.115 Crores.
- Chintan Seth:** Okay.
- S.K. Chaudhary:** Property investment which I have already said is around Rs.457 Crores as on December 31, but that on fair market value if you take it out today, the market value will be around Rs.1000 Crores, but we are keeping it only for our rental income. It will give us steady rental income and property will keep on appreciating and appropriate time we will quit it.
- Chintan Seth:** Thanks for answering questions.
- Moderator:** Thank you. The next question is from Keshav Garg from Equity Mechanics. Please go ahead.
- Keshav Garg:** Sir I wanted to understand, last year Q4 completed Rs.1575 Crores total income and Rs.295 Crores PBT and Rs.219 Crores PAT, so this Q4 of this financial year, will be able to match or exceed this sales and profit figure for Q4?
- S.K. Chaudhary:** We have the trust, and we are also trusting that it will get matched and we cannot get more.
- Keshav Garg:** Because last year in the Q4 there were some tax refund and all, so this year we will not have, so will we be able to match it?
- S.K. Chaudhary:** We will do that.

- M.K. Singh:** Last quarter is roughly 30% to 35% minimum of the entire year that has been the trend for construction industry like Ircon and even in Ircon last year it was around 35% of the total year. So this year also we hope to have a very robust Q4 and that refund as we have already explained has been there for FY2019 also, total Rs.106 Crores which we have taken out of which Rs.84 Crores is tax refund and rest is interest income, so that already formed part of the whole thing and PBT will grow as expected and as was the case in last quarter of the last year.
- Keshav Garg:** Okay Sir and one more things like you mentioned in the past 50% payout ratio if you keep for the dividend in nine months we have done about Rs.37 for EPS in the fourth quarter we will do something, so whatever replace will be 50% you will payout?
- M.K. Singh:** Now that is something which will have to take a call on that, but we follow DIPAM guidelines for payout and the level of dividend and interim dividend as you are aware it has already been declared.
- Keshav Garg:** Final dividend is also there or this is only?
- S.K. Chaudhary:** It is interim, final will also come.
- M.K. Singh:** It is interim only.
- S.K. Chaudhary:** Final will also come.
- Keshav Garg:** Sir, one request is that dividend once shareholders get it is the end of it, but if you do it here by that then the number of shares will reduce and for the same profit, urban per share will go up permanently, so if you can answer many PSUs are doing share buyback, so if you could please consider share buyback instead of...?
- S.K. Chaudhary:** Do you think that is a good thing to do?
- Keshav Garg:** Yes Sir, it should be considered and Sir one thing...
- S.K. Chaudhary:** Those PSUs you ask them that what money they have left for their capex and how they will do the business, it is just they are doing this thing, because they have been asked to do that. So we have to see our business and accordingly we will take the call.
- Keshav Garg:** What I am saying Sir instead of I am not saying you do both dividend and buyback, I am saying instead of dividend you can do buyback, so balance sheet remains the same?
- S.K. Chaudhary:** I think otherwise also, we did buyback last year of our shares in 2017, 2018 and we do not think that now we will do anything in the near future in a year or two.

- Keshav Garg:** Okay and Sir also like you mentioned, the mall and this office projects when will they come on Sir, when will the rental income start?
- S.K. Chaudhary:** We are trying to fix as I said we have already appointed consultant, we are trying to find out the operator. So as soon as the operator we will operate it, because we are not in the business of operating it so then we will start getting the rental, it is his job, as any mall is generally returned by any of it, so we will just ask for a fixed income basis not on a revenue sharing basis, so these are all things which we are studying now and we will take a call within next two, three months.
- Keshav Garg:** But these properties are under construction or are they already constructed and ready to be rented out?
- S.K. Chaudhary:** It is 97%, 98% already completed.
- Moderator:** Thank you. The next question is from Sarikha Thorate from Union Mutual Fund. Please go ahead.
- Sarikha Thorate:** Thank you for the opportunity Sir. I wanted to know what was your order book in Q3 FY2018?
- S.K. Chaudhary:** Q3?
- Sarikha Thorate:** Q3 FY2018 last year.
- S.K. Chaudhary:** That was Rs.22000 Crores, now it is Rs.26000 Crores.
- Sarikha Thorate:** Okay Sir and I wanted to understand about this Ircon Infrastructure Services Limited subsidiary who has entered agreement with the Railway Development Authority to build the multifunction complexes?
- S.K. Chaudhary:** Yes.
- Sarikha Thorate:** Will you just explain how, what would be the business model for this?
- S.K. Chaudhary:** That already constructed, these are the small budget hotels, which has already been constructed. They have been given on the lease to various hotel operators whoever wanted to take it and they are paying the annual rent to us because of the subsidiary.
- Sarikha Thorate:** And Sir what are the future plans about this particular agreement, currently 24 multifunction complexes are there, so is there any plan to increase these or expand these complexes?
- S.K. Chaudhary:** Not much now because as I said that the real estate is a very, very difficult kind of a thing in today's market, we will more focus on infrastructure than less on real estate. Yes, we are already

in talks with ministry of railways who want to redevelop their colonies. We have given them some choices of four or five colonies in which we are interested, so we have to hear back from them. It will be again on PMC basis and the appetite of the market whether they will be ready to absorb such kind of properties at such prices.

**Sarikha Thorate:** Okay and Sir as well about this India Railway Station Development Authority joint venture you have, so what are the plans there, because you have some stations you are currently developing, so any plans in that to further expand?

**S.K. Chaudhary:** No, the cabinet has given them approval. First of all they have been declared as a planning authority, so they can sanction the plan themselves, they need not go anywhere. Secondly, they have been asked to give loan of around Rs.2650 Crores from Indian Railway Finance Corporation for constructing the station on Engineering, Procurement and Construction basis, this is a contract which will be constructed and paid to any contractor who will develop it. As I said the motive of creation of this company was to develop the railway land around the railway station by the developer and he can earn profit from there and part of its profit he can make the railway station. Since now property as a whole is very, very slow, so lot of developers is not keen in that model. That is why Government of India thought fit that we start some of the stations with our own money and make them on EPC basis. Once these are the constructed then we will exploit the land later on. So this is the model on which few of the works, they have already tendered out.

**Sarikha Thorate:** Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Tanush Mehta from Dalal & Broacha. Please go ahead.

**Tanush Mehta:** My question was that in the call you said that most of the expenses are fixed or whatever revenue grows that is directly be profitable, so on a rough basis and how much of our expenses will be fixed and how much would be variable?

**S.K. Chaudhary:** My expenses are basically practically these salaries of the employees, which I have deputed on the projects or doing the projects supervision. So those numbers are fixed when the execution capacity increases or the growth in the execution increases, so definitely the fixed cost is already there, so the ratio will reduce fixed cost to the turnover. That is why I said that it is my cost is fixed that is employee's cost.

**Tanush Mehta:** Sir my second question was that how much of our cost is capitalized?

**S.K. Chaudhary:** Capitalized means what?

- Tanush Mehta:** Suppose you have a project that goes on for years and years, so you would be following any project completion method or how does Rs.100 of cost is incurred during the period, so on rough estimate basis taking the fixed cost into account how much would be capitalized and how much would be expensed out?
- M.K. Singh:** So far as the operating expenses is concerned, you get around 84% of the revenue to be spent as operating expenses, so 16% is the gross margin which we have left. This 54% will constitute of establishment cost, material cost and other cost associated for execution of the project.
- Tanush Mehta:** And Sir my another question was earlier we had have discussed in the call about DFC and East and West Corridor, so we discussed that the amount of the project is not a part of this Rs.26000 Crores executable order book?
- S.K. Chaudhary:** DFC is already there.
- Tanush Mehta:** Only East West is not there.
- M.K. Singh:** CWRL is not there, yes.
- S.K. Chaudhary:** Because that is financial closure is likely to be done, SBICAP is the lead part, doing the syndication and this thing, so SBI has committed Rs.1800 Crores, so balance they are trying, as soon as it will be done, we will start.
- Tanush Mehta:** Can you just please throw some light on DFC and the completion because there were many dates that keep on shifting, so can we get some light on DFC like when it will be completed or something?
- S.K. Chaudhary:** It will take time. Although track is ready, but actual train running will take time on that.
- Tanush Mehta:** So we can expect another one to two years or more?
- S.K. Chaudhary:** Yes, definitely. Slow process is there of client.
- Tanush Mehta:** Okay. Thank you Sir and all the best for the coming quarters.
- Moderator:** Thank you. The next question is from Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dikshit Doshi:** Just one clarification I suppose you have mentioned in terms of investment in property, we have two towers of 21 floors, one mall and two office complexes and all put together, the investment is Rs.457 Crores and market value is approximately Rs.1000 Crores right?



- S.K. Chaudhary:** Correct.
- Dikshit Doshi:** What kind of rent are we expecting from this?
- S.K. Chaudhary:** Office complex will be coming there, and in that we have two floors which will be part of training where we give training programs for in-house engineers and there also we have built a auditorium, which is 250-seater capacity auditorium, in Gurgaon there is no one such capacity and it is quite a modern auditorium, it is a part of that and other floors will go on rental to offices, so there many companies are ready to take these offices ready, and in all malls operator will decide as to how he has to do it and we do not have any such idea, so we have put an operator in that.
- Dikshit Doshi:** Okay, so all put together can we do some Rs.40 Crores, Rs.50 Crores of rent income?
- S.K. Chaudhary:** Yes, between 25 Crores or 35 Crores it should come, because rental income is not that much in all the places.
- Dikshit Doshi:** Okay and lastly what is the receivables as on December 31?
- M.K. Singh:** Rs.508 Crores.
- Dikshit Doshi:** Okay, fine.
- Moderator:** Thank you. Next we have a followup question from Keshav Garg from Equity Mechanics. Please go ahead.
- Keshav Garg:** Sir you just mentioned that for next year FY2020 Rs.5000 Crores is your MOU with your ministry, but if in Q4 we do around Rs.1500 Crores, Rs.1600 Crores that we did in last year fourth quarter, so we will reach some Rs.4600 Crores, Rs.4700 Crores?
- S.K. Chaudhary:** But we will do more than that and next year the target is Rs.5000 Crores which the government has fixed for us for FY2019-2020 that is March 2020 we have to touch figure of Rs.5000 Crores or beyond that.
- Keshav Garg:** Okay Sir, what I am trying to say that for this financial year itself we will do around Rs.4600 Crores, so for next financial year Rs.5000 Crores like 10% growth only? Okay Sir, so basically we will exceed that I mean in all the probabilities?
- S.K. Chaudhary:** We have always tried to exceed our targets only.
- Keshav Garg:** You have told that the rate of execution increase, then the fixed expenses will be the same, in that case how will our margin increase?

- S.K. Chaudhary:** In the 10% itself my cost will be reimbursed but the item rates contracts which are there, those costs are going from my pocket. That is a work which I got from tender. 45% whatever work is there that we have taken in tender, so those are fixed, so I need to take it from that profit itself and if I get a profit of 15%, then 10% will be saved. We have done a deal with the client that my cost of the employee will also be reimbursed by you, but I do not know at what time this will be completed. Those are the very tough projects and many of the contractors in India are not keen even to work there. They do not bid in those projects.
- Keshav Garg:** Is there any probability in that nomination business our margins can increase because right under the same ministry in nomination business, they are making 35% operating margin and we are making only 10% even though our work is more difficult?
- S.K. Chaudhary:** First time they wanted to try the execution part, but they are basically a consultancy firm and the maximum margin which they are coming out is from where project export of coaches and engines which they have already started or likely to start in Sri Lanka that was I think \$150 million US dollar line of credit I think so.
- Keshav Garg:** There is no possibility of our margin and nomination business increasing from 10%, no matter how difficult the project is?
- M.K. Singh:** 10% margin is with us since last 12 years now. So we do not see decrease in the margin being given by Indian Railways for the work assign to us on nomination.
- S.K. Chaudhary:** Everybody wants to go in construction, so neither they are able to complete the project neither they are able to make the margins.
- Keshav Garg:** All these properties that you were mentioning that Gurgaon towers and mall and the office projects in Noida, what is the total square feet approximately?
- S.K. Chaudhary:** Off the hand, I cannot tell you that figure, but definitely you can ask Mr. M.K. Singh, our executive Director, Finance and he has given his number, he will give the complete this thing.
- Keshav Garg:** Like you mentioned you have Rs.26000 Crores. It is almost six times our current revenue, so what is stopping us from further expediting the execution?
- S.K. Chaudhary:** There is no plain land available even to make railway station and yard where lines will it takes number of years to construct that because these are the new mountains, they keep on moving and sliding, this is not a very solid rock, it is made of mud only.
- Keshav Garg:** Okay Sir. Thank you very much.
- Moderator:** Thank you. Next question is from Siddarth Mohta from Principal India. Please go ahead.

- Siddarth Mohta:** Good evening. Sir my question is pertaining to segmental result in international segment and that pertains to December 2017 number, so what was the write back of provision that we have taken in international business in December 2017 where EBIT number is Rs.51 Crores?
- M.K. Singh:** Write back was foreign exchange loss of Rs.30.70 Crores which we have booked in Q2, it was written back in Q3.
- Siddarth Mohta:** Okay, so then it is Rs.51 Crores minus Rs.31 Crores that should be the number for this?
- M.K. Singh:** Yes.
- Siddarth Mohta:** That is number one and Sir any specific reason for fall in our other income from Rs.55 Crores to around Rs.40 Crores?
- M.K. Singh:** Reduction in gross bank interest by Rs.18 Crores.
- Siddarth Mohta:** Okay and Sir, can you also provide some update on your coal subsidiaries that would be useful?
- S.K. Chaudhary:** Complete project that is CERL1, Chhattisgarh East Railway Limited that will be completed in this financial year completely, 2019, 2020 the full project will be in operational.
- Siddarth Mohta:** Correct Sir, so revenue or what profitability we should be building from the subsidiaries in FY2020?
- M.K. Singh:** So far as this revenue because of the execution of the work is concerned, it is in the range of 9.5% to 11%.
- S.K. Chaudhary:** We are the partner of this project also and we are the executing agency also of this project. So from construction as we said 9% to 11%, but our lease concession period is 30 years, so for 30 years Indian Railway will be operating the trains on this and we will be getting our revenues from there. They will be sharing their revenues with us.
- Siddarth Mohta:** Correct Sir, so my question was that what can be our share of revenue or you can even mention about this PBT or at PAT levels, so increment number that we should be building in our financial model for FY2020 whether it will be Rs.25 Crores, Rs.30 Crores additional profit I can consider?
- M.K. Singh:** We will get back to you. The completion of this 44 kilometer how much revenue we will start accruing to CERL, we will work out and then we will get back.
- Siddarth Mohta:** Okay, for the benefit of all if you can just publish in the BSE website or might be in your website?

- M.K. Singh:** Done. Okay.
- Siddarth Mohta:** Sir, in export segment or in our international revenue you have mentioned regarding Sri Lanka something on this Bangladesh and Malaysia I know that it is still early, Sir if you can just quantify the range of order that it may be – it is like 2000, 2500, is it the right estimation? Okay and we are expecting that to becoming in a month or so? Even if you assume that these two projects it comes one in March and another one in April, so we can assume that around like 30%, 40% of revenue can come in FY2020?
- S.K. Chaudhary:** Completion period of these projects are three years.
- Siddarth Mohta:** Got your point and Sir my last question is in this Ircon Infra I think they also do the similar work what RITES doing and recently we have won any order in Goa?
- S.K. Chaudhary:** Goa they were trying but could not get it, but they are already doing two projects in Delhi, one is Department of Science & Technology building and another is first skill university of around Rs.420 Crores, so both is around Rs.600 Crores and they are already doing PMC of Rs.1500 Crores in Myanmar then road has been built of 90 kilometers of road, that is already 10% to 15% complete.
- Siddarth Mohta:** Okay and the nature of these project whether they carry high margin or how it is?
- S.K. Chaudhary:** They do very cut throat competition, but still we get definitely some margin from there.
- Siddarth Mohta:** Thank you Sir and best wishes to you for upcoming quarters.
- Moderator:** Thank you. That was the last question. I would now like to hand the conference back to the management team for closing comments.
- S.K. Chaudhary:** We are trying from our side the best to run this organization as a professionally run organization and I can say with proud that among all public sector undertakings, we are the only one company which is considered as a top 250 international contractors in the world. Our ranking has also come down in this year, comes down means improved and even in Fortune 500 companies we are there in India definitely construction business as you know that many companies are going up and down, but our company we keep on focusing on certain things and certain projects which keep on coming to us, we also decline many of the projects which we do not want to do, like for example there were projects which were coming for operation of airports and many private companies, they wanted to come to us for our project management efficiency and the large value of works which we have completed, so we were getting qualified, they wanted our help, but since we are not in the business of operating the airports. We said know we will be interested only in PMC but not putting the equity in that, so there are many projects which we keep on getting offers every day but selection of project is very, very important for construction company to

survive, because you can get into it, but coming out of it will be a big problem. So we select our partners also carefully that who is going to be my partner in the project and we always go for very, very big contracts that is with our partners like Afcons, Tata projects or L&T so that is we go in joint ventures so that both are similar nature of companies and they know the business and practically very few companies are now in positive networth or the operating profit this thing. So we generally try to do that even in government also certain business we refuse, because the margins are very, very less, some companies are ready to take the work at 3% of margin as PMC, so we refuse such works although the order value is Rs.1000 Crores, but it goes to the four years, so we do not want to do the work, where we do not get anything, so yes we do the business of Rs.4500 Crores if PBT is around Rs.611 or Rs.620 Crores, it will be quite good for me, I am happy in that rather than losing money from my pocket in doing any of these kind of projects. So getting work is very easy, but execution in making profit is very, very difficult, because all the challenges in the market which are there and these are the projects which are not closed door projects. These are the projects which are in open area you are performing and you get all kind of pressures from all sides. That is why we diversify in different areas and different countries and different type of projects. So that is the focus visit the management is going on and we hope that this growth will continue because certain companies have order books are so large but they are not able to execute even Rs.5000 Crores of work. So it is also not very good to have more orders and not executed, so better you complete your projects in time and the only company in India who has never left any project incomplete anywhere in the world or in India never ever there were any penalty or your bank guarantee has been encashed, because we work as a contractor also, so this is a major fete in the feather of any company and we are also winning continuous arbitrations with our clients which we are likely to get the money in the next year. We already won two or three arbitration cases quite a handsome amount of it. So these all things on which we are going ahead, hope that with all your blessings and support of the market and investment bankers. They understand that how the company is running, so this is very, very important. Thank you very much.

**Moderator:**

Thank you very much. On behalf of Axis Capital Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.